

**OFFERING CIRCULAR**

**\$500,000,000**

**TENNESSEE VALLEY AUTHORITY**

**6.235% Power Bonds 1995 Series B Due July 15, 2045**

**Interest Payable January 15 and July 15**

The 6.235% Power Bonds 1995 Series B Due 2045 (the "Bonds") of the Tennessee Valley Authority ("TVA") will be redeemable, in whole only, on not less than 15 Business Days' notice at any time on or after July 15, 2020 at the option of TVA at a redemption price equal to 100 percent of the principal amount, plus accrued interest to the date fixed for redemption. The Bonds will be issued in minimum denominations of \$1,000 and integral multiples thereof in book-entry form through the Federal Reserve Banks. See "Description of Bonds".

Each of the Bonds will be repayable at the option of the beneficial owner, together with the Holder thereof on July 15, 2001, at 100 percent of the principal amount plus accrued interest thereon to the date of repayment. Notice of such election must be received by TVA no earlier than June 15, 2001 and no later than July 2, 2001, and once received, such notice will be irrevocable. See "Description of Bonds".

Application has been made to list the Bonds on the New York Stock Exchange.

TVA is a wholly owned corporate agency and instrumentality of the United States of America. Principal and interest will be payable solely from TVA's Net Power Proceeds (as defined herein).

The Bonds will be issued, maintained and transferred only on the book-entry system of the Federal Reserve Banks, as described herein.

**THE BONDS WILL NOT BE OBLIGATIONS OF, NOR WILL PAYMENT OF THE PRINCIPAL THEREOF OR THE INTEREST THEREON BE GUARANTEED BY, THE UNITED STATES OF AMERICA. THE BONDS ARE NOT REQUIRED TO BE REGISTERED UNDER THE SECURITIES ACT OF 1933. ACCORDINGLY, NO REGISTRATION STATEMENT HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. TVA IS NOT SUBJECT TO THE PERIODIC REPORTING REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934.**

|                | Price to<br>Public(1) | Underwriting<br>Discount | Proceeds to<br>TVA(2) |
|----------------|-----------------------|--------------------------|-----------------------|
| Per Bond ..... | 100%                  | .225%                    | 99.775%               |
| Total .....    | \$500,000,000         | \$1,125,000              | \$498,875,000         |

(1) Plus accrued interest from July 24, 1995 to date of delivery.

(2) Before deducting expenses payable by TVA estimated at \$50,000.

The Bonds offered by this Offering Circular are offered by the several Underwriters subject to prior sale, withdrawal, cancellation or modification of the offer without notice, to delivery to and acceptance by the Underwriters and to certain further conditions. It is expected that delivery of the Bonds, in book-entry form, will be made through the book-entry system of the Federal Reserve Banks on or about July 24, 1995, against payment therefor in immediately available funds.

**Merrill Lynch & Co.**

**J.P. Morgan Securities Inc.**

**Morgan Stanley & Co.**  
Incorporated

The date of this Offering Circular is July 18, 1995

## Region Served by The Tennessee Valley Authority



TVA is a federal corporation established by Congress in 1933. TVA supplies electricity and develops resources in areas covering parts of seven states.



# B U I L D I N G   A   C O M P E T I T I V E   F U T U R E

TVA is poised to be a major player in what is predicted to be a new, highly competitive electric utility market. With one of the largest generating and transmission systems in the United States, TVA's power operations form a vital part of the nation's energy infrastructure.



Like many corporations, TVA has in recent years taken steps to reduce expenses and at the same time improve its products and services. As a result, TVA has frozen its power rates for eight years in a row, and plans to extend the rate freeze through at least 1997. TVA's distributors already have among the lowest residential rates in the country.

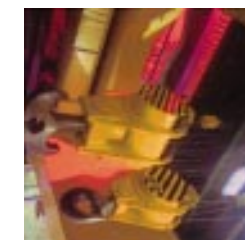


TVA is a unique organization that is part business and part government. It operates an electric power system but also carries out congressionally mandated programs, such as economic development, natural resource development, and flood control on the Tennessee River.

TVA's electric power operations are entirely self funding and are not supported by federal tax dollars. Revenues from TVA power sales were about \$5.4 billion in fiscal year 1994.

TVA's congressionally mandated programs are funded through federal tax dollars. Congressional appropriations were about \$140 million in fiscal year 1994.

TVA was cited in 1994 as a "model government reinvention laboratory" by Vice President Albert Gore's National Performance Review Team. The designation identifies TVA as a role model for other government organizations.



## TVA Vision

*To be the recognized world leader in providing energy and related services, independently and in alliances with others, for society's global needs.*

## TVA Goals

### Customer Driven

*Be recognized by our customers as the best and easiest corporation with which to do business. Anticipate the needs of our customers and continue to offer competitive prices.*

### Employee Sensitive

*Continually train employees to meet the challenges of the future; provide opportunities for employee career growth; attract and retain the most qualified employees who will take initiative and accept responsibility and accountability for exceeding customer expectations.*

### Environmentally Responsible

*Be a recognized leader in environmental stewardship in the interests of our customers, our employees and the other publics TVA serves.*

### Growth Oriented

*Aggressively and sensibly pursue growth and alliances that will add value to society, provide opportunities for our employees and ensure the future success of the corporation.*



IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE NEW YORK STOCK EXCHANGE, OR OTHERWISE. SUCH STABILIZATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

This Offering Circular should be read in conjunction with TVA's current Information Statement, dated March 30, 1995 (the "current Information Statement"), which is attached hereto and incorporated herein by this reference. Any statement contained in the current Information Statement shall be deemed to be modified or superseded for all purposes of the current Information Statement and this Offering Circular to the extent that a statement contained in this Offering Circular modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified, to constitute a part of the current Information Statement. Additional copies of this Offering Circular and of the current Information Statement may be obtained upon written request directed to Tennessee Valley Authority, 400 West Summit Hill Drive, Knoxville, Tennessee 37902, Attention: Vice President and Treasurer, or by calling (615) 632-3366. The then current Information Statement and other information concerning TVA may be inspected at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

## SUMMARY OF OFFERING

*The information below is qualified in its entirety by the detailed information appearing in TVA's current Information Statement (and any supplement thereto) and elsewhere in this Offering Circular. Capitalized terms used and not defined herein have the meanings defined in such Information Statement and elsewhere in this Offering Circular.*

|                                   |  |
|-----------------------------------|--|
| Issuer .....                      | TVA is a wholly owned corporate agency and instrumentality of the United States of America established by the Tennessee Valley Authority Act of 1933, as amended.  |
| Securities Offered .....          | \$500,000,000 aggregate principal amount of 6.235% Power Bonds 1995 Series B Due July 15, 2045.  |
| Interest .....                    | The Bonds will bear interest from July 24, 1995, at the annual rate set forth on the cover page hereof, payable semi-annually in arrears on each January 15 and July 15, commencing January 15, 1996.  |
| Redemption .....                  | The Bonds may be redeemed at TVA's option, in whole only, at any time on or after July 15, 2020, at a redemption price equal to 100 percent of the principal amount, plus accrued interest, if any, to the date fixed for redemption (the "Redemption Date"). See "Description of Bonds" — "Redemption".   |
| Repayment .....                   | Each of the Bonds will be repayable, at the option of the beneficial owner, together with the Holder thereof, on July 15, 2001 (the "Repayment Date"), at 100 percent of its principal amount plus accrued interest thereon to the Repayment Date. To exercise such an option, a beneficial owner together with the Holder thereof must deliver a timely notice to TVA. Such notice must be received by TVA no earlier than June 15, 2001, and no later than July 2, 2001. Once received, such notice will be irrevocable. See "Description of Bonds" — "Repayment". |
| Fiscal Agent .....                | Federal Reserve Banks.   |
| Listing .....                     | Application has been made to list the Bonds on the New York Stock Exchange.  |
| Use of Proceeds .....             | The net proceeds received by TVA from the sale of the Bonds will be used to retire existing debt.  |
| Source of Payment.....            | The interest and principal on the Bonds are payable solely from Net Power Proceeds and are not obligations of, or guaranteed by, the United States of America. See "The Basic Resolution; Power Bonds, Discount Notes and Other Indebtedness" in the current Information Statement.  |
| Form and Denomination of Bonds .. | The Bonds will be issued and maintained and may be transferred by Holders only on the book-entry system of the Federal Reserve Banks. See "Description of Bonds" — "Book-Entry System". The Bonds will not be exchangeable for definitive securities. The Bonds will be issued and must be maintained and transferred in minimum denominations of \$1,000 and integral multiples thereof.  |
| Legality of Investment.....       | The following describes the legality of investment in TVA Power Bonds. Potential investors are advised to consult with their own   |

counsel with respect to the legality of investment in the Bonds.  
Generally, Power Bonds:

- are acceptable as security for all fiduciary, trust, and public funds, the investment or deposit of which shall be under the authority or control of any officer or agency of the United States of America;
- are eligible as collateral for Treasury tax and loan accounts;
- are among those obligations which national banks may deal in, underwrite and purchase for their own accounts up to ten percent of unimpaired capital and surplus;
- are eligible as collateral for advances by Federal Reserve Banks to depository institutions;
- are legal investments for federal savings associations and federal savings banks to the extent specified in applicable regulations;
- are eligible as collateral for advances by Federal Home Loan Banks for which the Bonds are legal investments; and
- are legal investments for federal credit unions.

See “Legality of Investment”.

|                             |   |
|-----------------------------|---|
| No Acceleration Right ..... | The Bonds will not contain any provisions permitting the Holders to accelerate the maturity thereof on the occurrence of any default. |
| Taxation .....              | The Bonds are subject to various tax consequences. See “Tax Considerations Applicable to Bonds.”                                      |
| CUSIP Number.....           | 880591 CF7  |

## **TENNESSEE VALLEY AUTHORITY**

The Tennessee Valley Authority is the largest public electric power system in the United States of America, producing more than 130 billion kilowatthours of electricity in fiscal year 1994. The TVA system is the supplier of electric power to a region containing 7.3 million people located in parts of seven states: Tennessee, Kentucky, Mississippi, Alabama, Georgia, North Carolina and Virginia.

TVA is a wholly owned corporate agency and instrumentality of the United States established pursuant to the Tennessee Valley Authority Act of 1933, as amended (the "Act"), primarily to develop and manage the resources of the Tennessee Valley region. The programs at TVA consist of power and nonpower programs. TVA's electric system operations are required to be self-supporting from power system revenues, which were about \$5.4 billion in fiscal year 1994. No tax dollars go into the operation of TVA's power program. The Act authorizes TVA to issue Evidences of Indebtedness (as such term is defined under "Description of Bonds") that may only be used to finance its power program. TVA's nonpower activities include responsibilities associated with operation of the Tennessee River system, land management, economic development and the environment. Congress provided \$143 million for TVA's nonpower programs in fiscal year 1995.

For 63 years, TVA has been associated with bringing prosperity to a significant region of the United States. Its dams have averted an estimated \$4 billion in flood damage; its mosquito control efforts eradicated malaria in an area where at one time about 30 percent of the population suffered from the disease; the fertilizers and soil conservation techniques it developed improved farming immensely in the Tennessee Valley and throughout the world; and its power program brought electricity to a large area of the country where the convenience of electric power was relatively unknown.

TVA's mission has changed over the years as the needs of its customers have changed. Today, for example, TVA's river operations result in power production, improved water quality, and maintenance of water levels for environmental purposes and recreational use. Resources once used to develop fertilizers today help solve environmental problems. Now that the entire Tennessee Valley can enjoy affordable electricity, TVA has turned its attention toward becoming a national and global competitor. TVA is controlling costs, improving customer service, diversifying its products, and developing a 25-year plan for meeting future energy needs.

### **USE OF PROCEEDS**

The net proceeds received by TVA from the sale of the Bonds will be used to retire existing debt.

### **RECENT DEVELOPMENTS**

#### **Recognition Award**

Vice President Albert Gore, Jr. on April 29, 1995 presented the Hammer Award to TVA employees. The Hammer Award is an award given to federal employees who exemplify the principles of making government work better and cost less. Vice President Gore had asked TVA to be a laboratory demonstrating the principles of reinventing government and praised TVA as one of the "premiere examples" of the program.

#### **Financial Results**

The condensed financial statements for the fiscal years ended September 30, 1994 and 1993 have been derived from TVA's audited financial statements. The condensed financial statements for TVA's power program for the nine months ended June 30, 1995 and 1994 are unaudited but in the opinion of management of TVA include all adjustments (consisting only of normal recurring adjustments) necessary for the fair presentation of results for such periods. The following information should be read in conjunction with the audited financial statements and notes thereto presented in the current Information Statement. Results for the nine months ended June 30, 1995 are not necessarily indicative of results for fiscal year 1995.

**TENNESSEE VALLEY AUTHORITY  
POWER PROGRAM**

**CONDENSED BALANCE SHEETS  
At June 30, 1995 and September 30, 1994**

|   | June 30,<br>1995 | September 30,<br>1994 |
|---|------------------|-----------------------|
|   | (Millions)       |                       |
| ASSETS  |                  |                       |
| CURRENT ASSETS  |                  |                       |
| Cash and cash equivalents .....                                 | \$ 158           | \$ 2                  |
| Accounts receivable.....  | 581              | 676                   |
| Inventories .....   | 358              | 347                   |
| Total current assets .....                                      | 1,097            | 1,025                 |
| INVESTMENT FUNDS .....  | 167              | 150                   |
| DEFERRED CHARGES AND OTHER ASSETS .....                         | 2,779            | 2,596                 |
| PROPERTY, PLANT, AND EQUIPMENT                                  |                  |                       |
| Completed plant .....   | 17,489           | 16,700                |
| Less accumulated depreciation .....                             | 5,895            | 5,584                 |
| Net completed plant .....                                       | 11,594           | 11,116                |
| Construction in progress .....                                  | 9,976            | 9,520                 |
| Deferred nuclear generating units .....                         | 6,223            | 6,206                 |
| Nuclear fuel and capital lease assets.....                      | 1,202            | 1,229                 |
| Total property, plant, and equipment .....                      | 28,995           | 28,071                |
| Total assets.....   | \$33,038         | \$31,842              |
| LIABILITIES AND PROPRIETARY CAPITAL                             |                  |                       |
| CURRENT LIABILITIES   |                  |                       |
| Short-term notes  |                  |                       |
| U.S. Treasury.....  | \$ 150           | \$ 150                |
| Discount notes .....  | 1,145            | 2,459                 |
| Total short-term notes .....                                    | 1,295            | 2,609                 |
| Accounts payable.....   | 528              | 646                   |
| Accrued liabilities .....                                       | 116              | 196                   |
| Accrued interest.....   | 459              | 424                   |
| Current maturities of long-term debt .....                      | 959              | 716                   |
| Total current liabilities .....                                 | 3,357            | 4,591                 |
| OTHER LIABILITIES .....   | 1,269            | 963                   |
| LONG-TERM DEBT  |                  |                       |
| Senior Debt:  |                  |                       |
| Public bonds.....   | 20,942           | 19,146                |
| Federal Financing Bank .....                                    | 3,200            | 3,400                 |
| Subordinated Debt:  |                  |                       |
| Public bonds.....   | 600              | —                     |
| Less unamortized discount .....                                 | 371              | 340                   |
| Total long-term debt .....                                      | 24,371           | 22,206                |
| PROPRIETARY CAPITAL   |                  |                       |
| Appropriation investment .....                                  | 648              | 648                   |
| Less requirement for repayment of appropriation investment..... | 15               | —                     |
| Retained earnings reinvested in power program.....              | 3,408            | 3,434                 |
| Total proprietary capital .....                                 | 4,041            | 4,082                 |
| Total liabilities and proprietary capital .....                 | \$33,038         | \$31,842              |



**TENNESSEE VALLEY AUTHORITY  
POWER PROGRAM**

**CONDENSED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS**

**For the Nine Months Ended June 30, 1995 and 1994**

**and for the Years Ended September 30, 1994 and 1993**

|   | Nine Months Ended<br>June 30, |                | Fiscal Year Ended<br>September 30, |                |
|---|-------------------------------|----------------|------------------------------------|----------------|
|   | 1995                          | 1994(1)        | 1994                               | 1993           |
|   | (Millions)                    |                |                                    |                |
| <b>OPERATING REVENUES</b>                                 |                               |                |                                    |                |
| Sales of electric energy                                  |                               |                |                                    |                |
| Municipalities and cooperatives .....                     | \$3,296                       | \$3,373        | \$4,582                            | \$4,479        |
| Federal agencies .....                                    | 127                           | 218            | 296                                | 254            |
| Industries .....  | 338                           | 344            | 452                                | 472            |
| Other .....   | 62                            | 52             | 71                                 | 71             |
| Total operating revenues .....                            | <u>3,823</u>                  | <u>3,987</u>   | <u>5,401</u>                       | <u>5,276</u>   |
| <b>OPERATING EXPENSES</b>                                 |                               |                |                                    |                |
| Fuel and purchased power, net .....                       | 1,013                         | 1,113          | 1,493                              | 1,401          |
| Operating and maintenance .....                           | 745                           | 760            | 1,081                              | 1,174          |
| Depreciation and amortization .....                       | 502                           | 467            | 639                                | 457            |
| Tax-equivalent payments .....                             | 187                           | 182            | 248                                | 237            |
| Total operating expenses .....                            | <u>2,447</u>                  | <u>2,522</u>   | <u>3,461</u>                       | <u>3,269</u>   |
| <b>OPERATING INCOME</b> .....                             | <u>1,376</u>                  | <u>1,465</u>   | <u>1,940</u>                       | <u>2,007</u>   |
| <b>OTHER INCOME AND DEDUCTIONS, NET</b> .....             | <u>(17)</u>                   | <u>(4)</u>     | <u>(59)</u>                        | <u>23</u>      |
| Income before interest charges .....                      | <u>1,359</u>                  | <u>1,461</u>   | <u>1,881</u>                       | <u>2,030</u>   |
| <b>INTEREST CHARGES</b>                                   |                               |                |                                    |                |
| Interest on debt .....                                    | 1,509                         | 1,375          | 1,853                              | 1,777          |
| Allowance for funds used during construction(2) .....     | <u>(155)</u>                  | <u>(92)</u>    | <u>(123)</u>                       | <u>(58)</u>    |
| Net interest charges .....                                | <u>1,354</u>                  | <u>1,283</u>   | <u>1,730</u>                       | <u>1,719</u>   |
| <b>NET INCOME</b> .....                                   | <u>5</u>                      | <u>178</u>     | <u>151</u>                         | <u>311</u>     |
| Return on appropriation investment .....                  | <u>31</u>                     | <u>31</u>      | <u>42</u>                          | <u>48</u>      |
| Increase (decrease) in retained earnings .....            | <u>(26)</u>                   | <u>147</u>     | <u>109</u>                         | <u>263</u>     |
| Retained earnings reinvested at beginning of period ..... | <u>3,434</u>                  | <u>3,325</u>   | <u>3,325</u>                       | <u>3,062</u>   |
| Retained earnings reinvested at end of period .....       | <u>\$3,408</u>                | <u>\$3,472</u> | <u>\$3,434</u>                     | <u>\$3,325</u> |

- (1) The Condensed Statements of Operations and Retained Earnings and Condensed Statements of Cash Flows for the nine months ended June 30, 1994 have been restated to give retroactive effect to amortization of TVA's 1994 reclassification of a \$1,009 million capitalized interest component of nuclear fuel to other deferred charges. (See Note 1 of "Notes to Financial Statements" in the Financial Statements in the current Information Statement.) The effect of the restatement was to increase depreciation and amortization expense, and decrease operating and net income by \$95 million.
- (2) Effective October 1, 1994 TVA changed its method of determining the weighted average interest rate used to calculate the allowance for funds used during construction. The change, which is intended to better reflect the nature of debt issues used to finance construction, gives greater effect to TVA's most recent long-term bond issuances. The effect of the change was to increase the allowance by \$44.8 million for the nine months ended June 30, 1995. TVA discontinued the policy of limiting capitalized interest to the sum of items not requiring cash less the annual repayment of the Appropriation Investment to the U.S. Treasury.

**TENNESSEE VALLEY AUTHORITY  
POWER PROGRAM**

**CONDENSED STATEMENTS OF CASH FLOWS  
For the Nine Months Ended June 30, 1995 and 1994  
and for the Years Ended September 30, 1994 and 1993**

|  | <div> <div>Nine Months Ended</div> <div>June 30,</div> </div> |         | <div> <div>Fiscal Year Ended</div> <div>September 30,</div> </div> |         |
|--|---|---------|--|---------|
|  | 1995  | 1994(1) | 1994   | 1993    |
|  | (Millions)  |         |  |         |
| CASH FLOWS FROM OPERATING ACTIVITIES                       |   |         |  |         |
| Net income . . . . .                                       | \$ 5  | \$ 178  | \$ 151   | \$ 311  |
| Items not requiring cash . . . . .                         | 483   | 630     | 909  | 519     |
| Other changes, net . . . . .                               | (62)  | 8       | 84   | (327)   |
| Net cash provided by operating activities . . . . .        | 426   | 816     | 1,144  | 503     |
| CASH FLOWS FROM INVESTING ACTIVITIES                       |   |         |  |         |
| Construction expenditures . . . . .                        | (1,378)   | (1,382) | (2,015)  | (2,311) |
| Other, net . . . . .                                       | 66  | 119     | 87   | (1,539) |
| Net cash used in investing activities . . . . .            | (1,312)   | (1,263) | (1,928)  | (3,850) |
| CASH FLOWS FROM FINANCING ACTIVITIES                       |   |         |  |         |
| Borrowings, net . . . . .                                  | 1,089   | 491     | 735  | 3,371   |
| Other . . . . .  | (47)  | (46)    | (62)   | (68)    |
| Net cash provided by financing activities . . . . .        | 1,042   | 445     | 673  | 3,303   |
| Net change in cash and cash equivalents . . . . .          | 156   | (2)     | (111)  | (44)    |
| Cash and cash equivalents at beginning of period . . . . . | 2   | 113     | 113  | 157     |
| Cash and cash equivalents at end of period . . . . .       | \$ 158  | \$ 111  | \$ 2   | \$ 113  |

(1) See Note (1) to Condensed Statements of Operations and Retained Earnings.

**Results of Operations for the Nine Months Ended June 30, 1995**

TVA recognized net power income of \$5 million during the nine months ended June 30, 1995, which compares to \$178 million for the same period of 1994. Electric sales increased 3 percent, for the nine months ended June 30, 1995 from 90 billion kilowatthours to 92.6 billion kilowatthours. Operating revenues for the nine months ended June 30, 1995 decreased \$164 million from \$3,987 million to \$3,823 million when compared to the same period of 1994. Revenues for the nine months ended June 30, 1994 included \$120 million for a contract settlement. The absence of such payment accounted for over half of the decrease in revenue for the nine months ended June 30, 1995. The remainder of the difference was due to changes in the sales mix and the impact of economic pricing for the industrial and federal customers.

Operating expenses for the nine months ended June 30, 1995 decreased \$75 million from \$2,522 million in the same period of 1994. TVA realized savings from fuel costs due to greater nuclear generation. Net interest expense increased \$71 million from \$1,283 million in the nine months ended June 30, 1994 to \$1,354 million for the same period in 1995. Interest on indebtedness increased due to added borrowings for TVA's power operations and higher short-term interest rates.

## **Liquidity and Capital Resources**

In October 1994, TVA issued in the public market \$200 million in Power Bonds to refinance \$200 million of existing debt owed to the Federal Financing Bank.

In April 1995, TVA issued in the public market \$600 million in subordinated Quarterly Income Debt Securities (due 2045) to retire short-term debt.

In June 1995, TVA issued in the public market \$2,000 million in Global Power Bonds (due 2005) to retire existing debt.

## **Other Matters**

In fiscal year 1995, TVA has made significant decisions designed to sharpen its competitive edge in a deregulated business environment. Early in fiscal year 1995, TVA Chairman Craven Crowell announced that TVA will not, by itself, complete Bellefonte Units One and Two and Watts Bar Unit Two as nuclear units. See “Nuclear Power Program” — “Nuclear Completion Schedules and General Needs” in the current Information Statement. The Chairman has also indicated that TVA intends to cap its debt at a level below its \$30 billion statutory ceiling. See “The Basic Resolution; Power Bonds, Discount Notes and Other Indebtedness” — “Issuance of Additional Bonds and Other Evidences of Indebtedness” in the current Information Statement. TVA also completed a successful voluntary early-out program that offered incentives to employees who resigned or retired, thus assisting TVA in reducing employment costs in future years.

The Nuclear Regulatory Commission (the “NRC”) completed a Systematic Assessment of Licensee Performance (“SALP”) for Browns Ferry Unit Two for the period September 19, 1993 through March 18, 1995. Under this process, performance is rated in four functional areas: Operations, Maintenance, Engineering and Plant Support. The area of Plant Support includes radiological controls, security, emergency preparedness, fire protection, chemistry and housekeeping controls. The rating system assigns a category rating of 1, 2 or 3 to each functional area. Summarized definitions for each rating are as follows: Category 1 — Performance substantially exceeds regulatory requirements; reduced NRC attention may be appropriate. Category 2 — Performance above that needed to meet regulatory requirements; NRC attention may be maintained at normal levels. Category 3 — Performance does not significantly exceed that needed to meet minimal regulatory requirements; NRC attention should be increased above normal levels. Browns Ferry Unit Two received a rating of “1” in the area of Plant Support and a rating of “2” in the other three functional areas. See “Nuclear Power Program” — “Browns Ferry” in the current Information Statement.

TVA plans to seek NRC approval to bring Watts Bar Unit One into commercial operation during the first quarter of calendar year 1996. See “Nuclear Power Program” — “Watts Bar” in the current Information Statement.

In April 1995 Palmer Bellevue, a consultant serving the electric utility industry, issued a report on TVA’s competitive position. This report concludes that TVA is well positioned to meet competitive challenges as the electric utility industry prepares for future deregulation and that TVA’s capital structure supports a comparable level of generating assets compared to investor-owned utility competitors. On June 1, 1995, the General Accounting Office (“GAO”) provided TVA a draft of a report which, among other things, focused on TVA’s level of debt, rates, competitive position and deferred nuclear assets. The report raises the issue of whether TVA will be able to recover all the costs of its deferred nuclear assets and the financial and competitive impact this would have. While the GAO is authorized to assist the Congress by evaluating government programs and activities and may make recommendations in this regard, it has no authority to order or direct that any action be taken. The draft report relating to TVA does not make any specific recommendations. The GAO has indicated that the draft report has not been fully reviewed within the GAO and is subject to revision. TVA has furnished to GAO a detailed response as to why the draft report is flawed in its analysis.

On May 31, 1995, TVA completed a preliminary draft of its Integrated Resource Plan which concludes that the best option for the units at Bellefonte is to convert these unfinished units to burn coal or natural gas. The report, called Energy Vision 2020, calls for an 18- to 20-month study to determine the details of

conversion. The draft plan also concludes that Watts Bar Unit Two will remain in deferred status until the Bellefonte study is complete.

## DESCRIPTION OF BONDS

### General

The Bonds are to be issued pursuant to authority vested in TVA by the Act and pursuant to the Basic Tennessee Valley Authority Power Bond Resolution adopted on October 6, 1960, as amended on September 28, 1976, October 17, 1989 and March 25, 1992 (the “Basic Resolution”), and the Supplemental Resolution authorizing the Bonds adopted on September 27, 1994 (the “Supplemental Resolution” and together with the Basic Resolution, the “Resolutions”). TVA has entered into a Fiscal Agency Agreement dated as of October 17, 1989 (the “Fiscal Agency Agreement”) with the Federal Reserve Banks, as fiscal agents (together, the “Fiscal Agent”). The Secretary of the Treasury has approved the time of issuance of, and the maximum rate of interest to be borne by, the Bonds in compliance with Section 15d(c) of the Act. The Bonds represent obligations of TVA payable solely from TVA’s Net Power Proceeds and are not obligations of, or guaranteed by, the United States of America.

The Act authorizes TVA to issue and sell bonds, notes and other evidences of indebtedness (hereinafter collectively referred to as “Evidences of Indebtedness”) to assist in financing its power program and to refund such Evidences of Indebtedness. Evidences of Indebtedness issued pursuant to Section 2.2 of the Basic Resolution designated as Tennessee Valley Authority Power Bonds are herein referred to as “Power Bonds”. The aggregate amount of Evidences of Indebtedness at any one time outstanding is limited to \$30 billion. As of June 30, 1995, TVA had approximately \$27.0 billion of Evidences of Indebtedness outstanding. There are \$1.2 billion of Power Bonds that are being redeemed under in-substance defeasance arrangements and are not considered by TVA to be debt that is subject to the \$30 billion limit. For information with respect to TVA’s Power Bonds and the Basic Resolution, see “The Basic Resolution; Power Bonds, Discount Notes and Other Indebtedness” — “Issuance of Additional Bonds and Other Evidences of Indebtedness” in the current Information Statement.

The summaries herein of certain provisions of the Act, the Resolutions and the Fiscal Agency Agreement do not purport to be complete and are qualified in their entirety by reference to all the provisions of the Act, the Resolutions and the Fiscal Agency Agreement, copies of which may be obtained upon written request directed to Tennessee Valley Authority, 400 West Summit Hill Drive, Knoxville, Tennessee 37902, Attention: Vice President and Treasurer, or by calling (615) 632-3366.

The Bonds will be Power Bonds as defined above and will be payable as to both principal and interest solely from TVA’s Net Power Proceeds, which are defined as the remainder of TVA’s Gross Power Revenues (as defined in the Basic Resolution) after deducting the costs of operating, maintaining, and administering its power properties (including multiple-purpose properties in the proportion that multiple-purpose costs are allocated to power) and payments to states and counties in lieu of taxes, but before deducting depreciation accruals or other charges representing the amortization of capital expenditures, plus the net proceeds of the sale or other disposition of any Power Facility (as defined in the Basic Resolution) or interest therein. The Act also requires TVA to make certain payments to the Treasury each year from Net Power Proceeds in excess of those required for debt service as a return on and reduction of the Appropriation Investment (as defined in the Basic Resolution). See “Certain Provisions of the Tennessee Valley Authority Act” — “Payments to the Treasury” in the current Information Statement.

The Bonds rank equally as to the application of Net Power Proceeds with all other Power Bonds. As to the application of Net Power Proceeds, Power Bonds presently rank senior to other Evidences of Indebtedness as to principal and on a parity with or senior to other Evidences of Indebtedness as to interest. At some future date prior to maturity of the Bonds, Evidences of Indebtedness other than Power Bonds may also rank on parity with Bonds as to principal. See “The Basic Resolution; Power Bonds, Discount Notes and Other Indebtedness” — “Amendments to the Basic Resolution to Become Effective in the Future” in the current Information Statement. For a further discussion of the application of Net Power Proceeds, see “Certain

Provisions of the Tennessee Valley Authority Act” and “The Basic Resolution; Power Bonds, Discount Notes and Other Indebtedness” — “Application of Net Power Proceeds” in the current Information Statement.

There is no limit on other indebtedness or securities which may be issued by TVA and no financial or similar restrictions on TVA, except as provided under the Act, the Basic Resolution and the Supplemental Resolution. TVA issues its Discount Notes pursuant to Section 15d of the Act and in accordance with Section 2.5 of the Basic Resolution. TVA may also issue Other Indebtedness in addition to Power Bonds and Discount Notes. Other Indebtedness, such as TVA’s Quarterly Income Debt Securities, are issued pursuant to Section 15d of the Act and under appropriate authorizing resolutions. See “The Basic Resolution; Power Bonds, Discount Notes and Other Indebtedness” in the current Information Statement.

### **Possible Future Issuances**

The Supplemental Resolution provides that, at the option of TVA, additional Bonds may be issued in one or more future installments pursuant to an amendment to the Supplemental Resolution not requiring the consent of holders of Bonds. Additional Bonds so issued shall be identical in all respects to the Bonds offered hereby (with any related changes in the issue date, issue price, and interest commencement date).

### **Payment of Principal and Interest**

The Bonds will consist of \$500,000,000 aggregate principal amount of 6.235% Power Bonds 1995 Series B Due July 15, 2045 (the “Maturity Date”). The Bonds will be issued in minimum denominations of \$1,000 and integral multiples thereof in book-entry form only through the Federal Reserve Banks as described below under “Book-Entry System”. Interest will be payable semi-annually in arrears on January 15 and July 15 (each an “Interest Payment Date”) commencing January 15, 1996. Such interest payments will include any interest accrued from and including July 24, 1995 or the preceding Interest Payment Date, as the case may be, to but excluding the relevant Interest Payment Date. Interest shall be computed on the basis of a 360-day year of twelve 30-day months. The principal amount of all Bonds, together with the interest accrued and unpaid thereon, is due in full, on the Maturity Date. Payments of principal and interest on the Bonds will be made on the applicable payment dates to Holders (as such term is defined under “Book-Entry System”) of the Bonds which are Holders as of the close of business on the Business Day preceding such payment dates, by credit of the payment amount to the Holders’ accounts at the Federal Reserve Banks. The Holder and each other financial intermediary in the chain to the beneficial owner will have the responsibility of remitting payments for the accounts of their customers.

In any case in which an Interest Payment Date, Redemption Date, Repayment Date, or the Maturity Date is not a Business Day, payment of principal or interest, as the case may be, shall be made on the next succeeding Business Day with the same force and effect as if made on such Interest Payment Date, Redemption Date, Repayment Date, or the Maturity Date. The term “Business Day” shall mean any day other than a Saturday or Sunday or a day on which banking institutions in New York City are authorized or required by law or executive order to be closed.

### **Redemption**

The Bonds are subject to redemption at the election of TVA upon not less than 15 Business Days’ notice broadcast to each Holder on the book-entry system of the Federal Reserve Banks, at any time on or after July 15, 2020, as a whole only, at a redemption price equal to 100 percent of the principal amount plus accrued interest to the Redemption Date.

### **Repayment**

Each of the Bonds will be repayable on July 15, 2001 at the option of the beneficial owner, together with the Holder thereof, at 100 percent of their principal amount plus accrued interest. To be repaid, the beneficial owner of a Bond, together with the Holder of such Bond, must notify TVA of such election and must return such Bond to TVA, as described below.

*Notification of election.* A beneficial owner that has elected to have a Bond owned by it repaid on July 15, 2001 must, together with its Holder, complete an "Option to Elect Repayment" form, substantially in the form contained herein and in accordance with the instructions contained herein, and which form and instructions will be provided at the Holder's request by TVA. The Holder must then submit such form to TVA. To be valid it must be received by TVA no earlier than June 15, 2001 and no later than July 2, 2001. As described under "Book-Entry System" below, a beneficial owner of a Bond will ordinarily hold the Bond through a Holder. Therefore, a beneficial owner of a Bond should determine from the relevant Holder the amount of notice that each such institution will need to comply with the notice provisions for repayment described above. Notice of the exercise of this repayment option by any Holder of a Bond shall be irrevocable. After receipt of timely notice, TVA will assign a number ("Election Number") to such notice.

*Return of Bond.* Any Holder that has submitted to TVA a completed "Option to Elect Repayment" form for a Bond, as described above, must also return such Bond to TVA by close of business (for securities transfers on the book-entry system of the Federal Reserve Banks) on July 10, 2001. Such delivery shall be effected by free delivery, without simultaneous payment in exchange therefor, no later than the close of the securities wire on the book-entry system of the Federal Reserve Banks on such day to TVA's account on the book-entry system of the Federal Reserve Banks. Thereafter, the Holder delivering such Bond will not be listed on the book-entry system of the Federal Reserve Banks as the Holder or owner of such Bond. A delivery of a Bond for repayment that is not accompanied, in the related instructions transmitted on the book-entry system of the Federal Reserve Banks, by the correct corresponding Election Number assigned by TVA may be returned and will not be eligible for repayment.

### **Book-Entry System**

The Bonds will be issued and maintained and may be transferred only on the book-entry system of the Federal Reserve Banks in minimum principal amounts of \$1,000 and additional integral multiples thereof. The Federal Reserve Banks will maintain book-entry accounts with respect to the Bonds and will make payments, on behalf of TVA, of interest on and principal of the Bonds on the applicable payment dates by crediting Holders' accounts at the Federal Reserve Banks. The Bonds will not be exchangeable for definitive securities.

The foregoing paragraph is a summary of certain provisions of the Fiscal Agency Agreement and does not purport to be a complete statement of all the provisions of such agreement.

Regulations governing the use of the book-entry system for the Bonds are contained in 18 C.F.R. Part 1314, and such procedures, insofar as applicable, as may from time to time be established by regulations of the United States Treasury Department governing obligations of the United States Treasury are contained in Treasury Department Circular No. 300. These regulations and procedures relate primarily to the registration, transfer, exchange and pledge of such obligations. A copy of Circular No. 300 may be obtained upon request from any Federal Reserve Bank, the Treasury Department or TVA. The accounts of holders on the Federal Reserve Banks book-entry system are governed by applicable operating circulars and letters of the Federal Reserve Banks.

The Bonds may be held of record only by entities eligible to maintain book-entry accounts with the Federal Reserve Banks. Such entities whose names appear on the book-entry records of a Federal Reserve Bank as the entities for whose accounts the Bonds have been deposited are herein referred to as "Holders". A Holder is not necessarily the beneficial owner of a Bond. Beneficial owners will ordinarily hold Bonds through one or more financial intermediaries, such as banks, brokerage firms and securities clearing organizations. A Holder that is not the beneficial owner of a Bond, and each other financial intermediary in the chain to the beneficial owner, will have the responsibility of establishing and maintaining accounts for their respective customers. The rights of the beneficial owner of a Bond with respect to TVA and the Federal Reserve Banks may be exercised only through the Holder thereof. TVA and the Federal Reserve Banks will have no direct obligation to a beneficial owner of a Bond that is not also the Holder of such Bond. The Federal Reserve Banks will act only upon the instructions of Holders in recording transfers of the Bonds.

## **Governing Law**

The Fiscal Agency Agreement and the Bonds shall be governed by and construed in accordance with the laws of the State of New York, to the extent such law is not inconsistent with federal law.

## **Listing**

Application has been made to list the Bonds on the New York Stock Exchange.

## **LEGALITY OF INVESTMENT**

The following generally describes the legality of investment in TVA Power Bonds.

The Bonds are lawful investments and may be accepted as security for all fiduciary, trust and public funds, the investment or deposit of which shall be under the authority or control of any officer or agency of the United States of America. 16 U.S.C. § 831n-4(d).

The Bonds are acceptable as collateral for Treasury tax and loan accounts pursuant to 31 C.F.R. § 203.14(d)(1).

National banks may deal in, underwrite and purchase the Bonds for their own accounts in an amount not to exceed ten percent of unimpaired capital and surplus. 12 U.S.C. § 24, seventh paragraph.

Federal Reserve Banks may accept the Bonds as eligible collateral for advances to depository institutions. 12 U.S.C. § 347 and 12 C.F.R. § 201.108(b)(13).

Federal savings associations and federal savings banks may, to the extent specified in applicable regulations, invest in the Bonds without regard to limitations generally applicable to investments. 12 U.S.C. § 1464(c)(1)(F).

The Bonds are eligible as collateral for advances by Federal Home Loan Banks to federal savings and loan associations, federal savings banks and other members for which the Bonds are legal investments. 12 U.S.C. § 1430(a) and 12 C.F.R. § 935.9(a)(2).

Federal credit unions may purchase the Bonds. 12 U.S.C. § 1757(7)(E).

The Bonds are “obligations of a corporation which is an instrumentality of the United States” within the meaning of Section 7701(a)(19)(C)(ii) of the Internal Revenue Code for purposes of the 60 percent of assets limitation applicable to building and loan associations.

## **TAX CONSIDERATIONS APPLICABLE TO BONDS**

The following discussion of the United States federal income and estate tax consequences of the purchase, ownership and disposition of Bonds is based upon laws, regulations, rulings and decisions, which are subject to change. The discussion does not address all aspects of United States federal income and estate taxation that may be relevant to a particular investor in light of its personal investment circumstances or to certain types of investors subject to special treatment under the United States federal income tax laws (for example, banks, life insurance companies and tax-exempt organizations), and generally does not address state and local taxation. Further, the discussion is limited to persons who will hold the Bonds as capital assets, and does not deal with United States federal income tax consequences applicable to persons who will hold the Bonds in the ordinary course or as an integral part of their trade or business, or as part of a hedging or straddle transaction. Each prospective owner of a Bond is urged to consult with its own tax advisor with respect to the United States federal, state and local tax consequences associated with the purchase, ownership and disposition of a Bond, as well as the tax consequences arising under the laws of any other taxing jurisdiction, and may not construe the following discussion as legal advice.

For purposes of this section (“Tax Considerations Applicable to Bonds”), “U.S. Person” means a citizen or resident of the United States, or a corporation or partnership organized in or under the laws of the United States or any political subdivision thereof, or an estate or trust the income of which is includible in gross income for United States tax purposes regardless of its source. The term “U.S. beneficial owner” includes any U.S. Person which is a beneficial owner of a Bond and any person which is a beneficial owner of a Bond to the extent that the income attributable to such Bond is effectively connected with the person’s conduct of a United States trade or business.

#### *U.S. Beneficial Owners*

A U.S. beneficial owner is subject to federal income taxation on income on a Bond, and there is no special exemption for a Bond from United States federal estate and gift tax. The Act, however, provides that the Bonds are exempt both as to principal and interest from all taxation now or hereafter imposed by any state or local taxing authority except estate, inheritance and gift taxes. This exemption might not extend to franchise or other non-property taxes in lieu thereof imposed on corporations or to gain or loss realized upon the sale or exchange of a Bond.

Upon a sale or exchange of a Bond, a U.S. beneficial owner generally will recognize capital gain or loss equal to the difference between the amount realized on the sale or exchange and the beneficial owner’s adjusted basis for the Bond.

If a U.S. beneficial owner purchases a Bond for less than its stated redemption price at maturity, in general, that difference will be market discount (unless the discount is less than  $\frac{1}{4}$  of 1% of the stated redemption price at maturity of the Bond multiplied by the number of complete years remaining to maturity). In general, under the market discount rules, unless the U.S. beneficial owner elects to accrue market discount in income currently, any gain on a disposition of a market discount Bond will be ordinary income to the extent of accrued market discount, and deductions for a portion of the interest on any indebtedness incurred or continued to purchase or carry the Bond may be deferred.

A U.S. beneficial owner who purchases a Bond for an amount greater than the amount payable at maturity of the Bond may elect to amortize the bond premium. In the case of a U.S. beneficial owner that makes an election to amortize bond premium or has previously made an election that remains in effect, amortizable bond premium on a Bond generally will be treated as a reduction of the interest income on a Bond on a constant yield basis (except to the extent regulations may provide otherwise) over the term of the Bond. The basis of a debt obligation purchased at a premium is reduced by the amount of amortized bond premium. An election to amortize bond premium will apply to certain other debt instruments acquired at a premium by a U.S. beneficial owner and may have different tax consequences depending on when the debt instruments were issued or acquired. A U.S. beneficial owner should consult a tax advisor before making that election.

#### *Non-U.S. Beneficial Owners*

Generally, a non-U.S. beneficial owner will not be subject to United States federal income taxation on interest on a Bond. To qualify for the exemption from taxation, the last U.S. Person in the chain of payment prior to payment to a non-U.S. beneficial owner (the “Withholding Agent”) must have received in the year in which such a payment occurs, or in either of the two preceding years, a statement that (i) is signed by the beneficial owner under penalties of perjury, (ii) certifies that such owner is not a U.S. beneficial owner, and (iii) provides the name and address of the beneficial owner. The statement may be made on an Internal Revenue Service Form W-8 or substantially similar substitute form, and the beneficial owner must inform the Withholding Agent of any change in the information on the statement within 30 days of such change. If a Bond is held through a securities clearing organization or certain other financial institutions, the organization or institution may provide a signed statement to the Withholding Agent. However, in such case, the signed statement must be accompanied by a copy of a Form W-8 or substitute form provided by the beneficial owner to the organization or institution holding the Bond on behalf of the beneficial owner.



Generally, any amount which constitutes capital gain to a non-U.S. beneficial owner upon retirement or disposition of a Bond will not be subject to federal income taxation in respect of such amount. Certain exceptions may be applicable and an individual non-U.S. beneficial owner should consult a tax advisor.

The Bonds will not be includible in the federal estate of a non-U.S. beneficial owner.

#### *Backup Withholding*

Backup withholding of United States federal income tax at a rate of 31 percent may apply to payments made in respect of the Bonds to beneficial owners who are not exempt recipients and who fail to provide certain identifying information (such as the beneficial owner's taxpayer identification number) in the manner required. Generally, individuals are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients. Payments made in respect of the Bonds to a U.S. beneficial owner must be reported to the United States Internal Revenue Service, unless such U.S. beneficial owner is an exempt recipient or establishes an exemption. Compliance with the identification procedures (described in the preceding section) would establish an exemption from backup withholding for those non-U.S. beneficial owners who are not exempt recipients.

In addition, upon the sale of a Bond to (or through) a broker, the broker must withhold at a rate of 31 percent of the reportable payment, unless either (i) the broker determines that the seller is a corporation or other exempt recipient or (ii) the seller provides, in the required manner, certain identifying information and, in the case of a non-U.S. beneficial owner, certifies that such seller is a non-U.S. beneficial owner (and certain other conditions are met). Such a sale must also be reported by the broker to the United States Internal Revenue Service, unless either (i) the broker determines that the seller is an exempt recipient or (ii) the seller certifies its non-U.S. status (and certain other conditions are met). Certification of the beneficial owner's non-U.S. status usually would be made on Form W-8 under penalties of perjury, although in certain cases it may be possible to submit other documentary evidence. The term broker generally includes all persons who, in the ordinary course of a trade or business, stand ready to effect sales made by others, as well as brokers and dealers registered as such under the laws of the United States or a state. These requirements generally will apply to a United States office of a broker, and the information reporting requirement generally will apply to a foreign office of a United States broker, as well as to a foreign office of a foreign broker (i) who is a controlled foreign corporation within the meaning of Section 957(a) of the Internal Revenue Code or (ii) 50 percent or more of whose gross income from all sources for the 3-year period ending with the close of its taxable year preceding the payment (or for such part of the period that the foreign broker has been in existence) was effectively connected with the conduct of a trade or business within the United States.

Generally, any amounts withheld under the backup withholding rules from a payment to a beneficial owner would be allowed as a refund or a credit against such beneficial owner's United States federal income tax.

## UNDERWRITING

Subject to the terms and conditions set forth in an underwriting agreement (the "Underwriting Agreement") among TVA and Merrill Lynch, Pierce, Fenner & Smith Incorporated, J.P. Morgan Securities Inc. and Morgan Stanley & Co. Incorporated (the "Underwriters"), TVA has agreed to sell to the Underwriters, and the Underwriters have severally agreed to purchase, the respective principal amounts of the Bonds set forth after their names below. The Underwriting Agreement provides that the obligations of the Underwriters are subject to certain conditions precedent and that the Underwriters will be obligated to purchase all of the Bonds if any are purchased.

| <u>Underwriters</u>   | <u>Principal<br/>Amount of Bonds</u> |
|---|--------------------------------------|
| Merrill Lynch, Pierce, Fenner & Smith<br>Incorporated ..... | \$166,700,000                        |
| J.P. Morgan Securities Inc. ....                            | 166,650,000                          |
| Morgan Stanley & Co. Incorporated .....                     | 166,650,000                          |
| Total .....   | <u>\$500,000,000</u>                 |

The Underwriters have advised TVA that they propose initially to offer the Bonds to the public at the public offering price set forth on the cover page of this Offering Circular, and to certain dealers at such price less a concession not in excess of .175% of the principal amount. The Underwriters may allow and such dealers may realow a discount not in excess of .125% of the principal amount of the Bonds to certain other dealers. After the initial public offering, the public offering price, concession and discount may be changed.

TVA has been advised by the Underwriters that they intend to make a market in the Bonds, but they are not obligated to do so and may discontinue making a market at any time without notice.

TVA has agreed to indemnify the Underwriters against certain civil liabilities or to contribute to payments the Underwriters may be required to make in respect thereof.

## VALIDITY OF BONDS

The validity of the Bonds will be passed upon for TVA by Edward S. Christenbury, Esq., General Counsel of TVA, and for the Underwriters by Orrick, Herrington & Sutcliffe, 1285 Avenue of the Americas, New York, New York 10019.

\* \* \* \* \*

Any statements in this Offering Circular involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Offering Circular is not to be construed as a contract or agreement with the purchaser of any of the Bonds.

## TENNESSEE VALLEY AUTHORITY

By: /s/ DAVID N. SMITH

David N. Smith  
*Chief Financial Officer*

Dated July 18, 1995

**ELECTION FORM**  
**TENNESSEE VALLEY AUTHORITY**  
**6.235% POWER BONDS 1995 SERIES B DUE JULY 15, 2045**  
**CUSIP NUMBER 880591 CF7**  
**OPTION TO ELECT REPAYMENT**

To: Tennessee Valley Authority

The undersigned beneficial owner of Tennessee Valley Authority ("TVA") 6.235% Power Bonds 1995 Series B Due July 15, 2045 (the "Bonds"), together with the Holder ("Depository Institution") thereof, hereby exercise an option for repayment of the principal amount of Bonds designated below on July 15, 2001 and agree to wire such Bonds to TVA's account entitled: "TVA General NYC ABA 021038860" by close of business (for securities transfers on the book-entry system of the Federal Reserve Banks) on July 10, 2001, free of charge and bearing the Election Number assigned by TVA as a reference. To be valid, this Election Form must be received by TVA no earlier than June 15, 2001 and no later than July 2, 2001. The undersigned beneficial owner and Depository Institution acknowledge that this election shall have no effect if the Bonds are not timely wired as required above or if the amount of the Bonds wired to TVA for repayment does not correspond exactly to the principal amount designated on line (6) below.

(1) \_\_\_\_\_  
Name of Beneficial Owner

(2) \_\_\_\_\_  
Signature of Beneficial Owner

(3) \_\_\_\_\_  
Name of Depository Institution (Holder)

(4) \_\_\_\_\_  
ABA Account Number

(5) \_\_\_\_\_  
Signature of Depository Institution Representative

(6) \_\_\_\_\_  
Principal Amount to be Repaid

(7) \_\_\_\_\_  
Date of Election

(8) Depository Institution Representative:                      (9) Wire instructions for payment of principal and interest:

Name:  
Phone Number:  
Fax Number:  
Mailing Address (no P.O. Boxes);

Bank Name:  
ABA Number:  
Account Name:  
Account Number:  
Reference (optional):

Election Number\* (to be completed by TVA):  
\_\_\_\_\_

\* To be assigned by TVA upon receipt of this Election Form. An acknowledgment, in the form of a copy of this document with the assigned Election Number, will be returned to the party and location designated on line (8) above no later than July 6, 2001.

**INSTRUCTIONS FOR COMPLETING ELECTION FORM  
AND EXERCISING REPAYMENT OPTION**

1. Indicate name of beneficial owner on line (1).
2. Affix authorized signature of beneficial owner or its agent on line (2). Signature must be guaranteed by Depository Institution designated on line (3) or the appropriate financial intermediary.
3. Indicate name of Depository Institution holding the book-entry Bonds on the book-entry system of the Federal Reserve Banks on line (3).
4. Insert ABA Account Number of Depository Institution on line (4).
5. Affix authorized signature of Depository Institution's representative on line (5). Signature must be notarized.
6. Indicate the principal amount of Bonds to be repaid on line (6).
7. Indicate date the Election Form was completed on line (7).
8. Indicate name, mailing address (no P.O. boxes, please), telephone number and facsimile-transmission number of the party to whom confirmation of this election may be sent on line (8).
9. Indicate the wire instruction for payment of principal and interest on July 15, 2001 on line (9).
10. Mail or otherwise deliver original copy of the completed Election Form to:

Tennessee Valley Authority  
ATTN: Vice President and Treasurer  
400 West Summit Hill Dr.  
Knoxville, Tennessee 37902

**FACSIMILE TRANSMISSIONS WILL NOT BE ACCEPTED.** To be valid, a properly completed Election Form must be received by TVA no earlier than June 15, 2001 and no later than the close of business on July 2, 2001.

11. If confirmation of TVA's receipt of the election, including the assigned Election Number is not received by July 6, 2001, contact TVA at (615) 632-3366.
12. Arrange for the Depository Institution to wire the principal amount of the Bonds to be repaid to TVA's account entitled "TVA General NYC ABA 021038860", free of charge, by the close of business (for securities transfers on the book-entry system of the Federal Reserve Banks) on July 10, 2001. **THE ELECTION NUMBER MUST ACCOMPANY THE DELIVERY.**

For assistance with this form or any questions relating thereto,  
please telephone TVA at (615) 632-3366.

## **INFORMATION STATEMENT**

# **TENNESSEE VALLEY AUTHORITY**

**A Wholly Owned Corporate Agency  
and Instrumentality of the**

## **UNITED STATES OF AMERICA**

The Tennessee Valley Authority ("TVA" or "Corporation") presents this Information Statement ("Statement") for the information of potential purchasers of its Power Bonds (the "New Power Bonds"), including its First Installment Series Bonds (the "Installment Bonds" — sometimes called "FISBS"), its Discount Notes and such other evidences of indebtedness ("Other Indebtedness") it may issue pursuant to the Act (as defined below). New Power Bonds are to be issued pursuant to authority vested in TVA by the Tennessee Valley Authority Act of 1933, as amended (the "Act") and the Basic Tennessee Valley Authority Power Bond Resolution adopted by the Board of Directors of TVA (the "Board") on October 6, 1960, as amended on September 28, 1976, October 17, 1989, and March 25, 1992 (the "Basic Resolution"). Discount Notes and Other Indebtedness are issued pursuant to the Act and their respective authorizing resolutions.

TVA may from time to time offer New Power Bonds and may offer on a continuous basis Discount Notes for sale by direct placements, through selected investment dealers, dealer banks, underwriters, or underwriting syndicates as TVA deems appropriate. Information concerning particular offerings of New Power Bonds, Discount Notes or Other Indebtedness will be described in an appropriate offering circular and in any supplement thereto. This Statement, and any supplement hereto, should be read in conjunction with the offering circular and any supplement thereto for the particular New Power Bonds, Discount Notes or Other Indebtedness being offered.

This Statement will be updated by supplements or replaced from time to time to reflect annual financial results of the Corporation and as otherwise determined appropriate by the Corporation. Any provisions herein modified or superseded shall not be deemed, except as so modified, to constitute a part of this Statement. Additional copies of this Statement may be obtained upon written request directed to Tennessee Valley Authority, 400 West Summit Hill Drive, Knoxville, Tennessee 37902, Attention: Vice President and Treasurer, or by calling (615) 632-3366.

No salesperson, dealer or other person has been authorized to give any information or to make any representations not contained herein or in a specific offering circular or supplement approved by TVA, and, if given or made, such information or representation must not be relied upon as having been authorized by TVA. This Statement and any offering circular or supplement do not constitute an offer to sell or a solicitation of any offer to buy any of the New Power Bonds, Discount Notes or Other Indebtedness offered hereby in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction. The delivery of this Statement and any offering circular or supplement at any time does not imply that the information given herein or therein is correct at any time subsequent to its respective date.

**THE NEW POWER BONDS, DISCOUNT NOTES, AND OTHER INDEBTEDNESS OF TVA WILL NOT BE OBLIGATIONS OF, NOR WILL PAYMENT OF PRINCIPAL THEREOF OR ANY INTEREST THEREON BE GUARANTEED BY, THE UNITED STATES OF AMERICA. PRINCIPAL AND INTEREST, IF ANY, WILL BE PAYABLE SOLELY FROM TVA'S NET POWER PROCEEDS AS HEREIN DEFINED. THE NEW POWER BONDS, DISCOUNT NOTES, AND OTHER INDEBTEDNESS ARE NOT REQUIRED TO BE REGISTERED UNDER THE SECURITIES ACT OF 1933. ACCORDINGLY, NO REGISTRATION STATEMENT HAS BEEN, AND NONE WILL BE, FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. TVA IS NOT SUBJECT TO THE PERIODIC REPORTING REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934.**

This Statement describes the business and operations of TVA as of its date and the financial condition of TVA as of the date of the financial statements included herein. Recipients of this Statement should retain it for future reference until such time as a subsequent Statement is made available by TVA, but delivery or retention of this Statement after the date hereof shall not create any implication that the information provided herein is correct at any time after the date hereof.

**The date of this Information Statement is March 30, 1995.**

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## THE TENNESSEE VALLEY AUTHORITY

TVA is a wholly owned corporate agency and instrumentality of the United States established by the Act with the objective of developing the resources of the Tennessee Valley region in order to strengthen the regional and national economy and the national defense.

TVA's programs fall into two types of activities — the power program and the nonpower programs. Substantially all TVA revenues and assets are attributable to the power program. Most of the funding for TVA's nonpower programs is provided by congressional appropriations. Additional funds are obtained for financing certain nonpower activities from various revenues and user fees associated with nonpower activities. For the fiscal year ended September 30, 1994, TVA received \$140 million in congressional appropriations from the federal government for the nonpower programs. TVA has received \$143 million in congressional appropriations for fiscal 1995. The power program is required to be self-supporting from revenues it produces. Financial accounts for the two types of TVA activities — power and nonpower — are kept separately. Proceeds from the sale of TVA's New Power Bonds, Discount Notes, and Other Indebtedness (collectively "Evidences of Indebtedness"), may be used only for the power program.

TVA is authorized by the Act to issue Evidences of Indebtedness to assist in financing its power program in an amount not exceeding \$30 billion outstanding at any one time. See "The Basic Resolution; Power Bonds, Discount Notes and Other Indebtedness" — "Issuance of Additional Bonds and Other Evidences of Indebtedness".

Congress has reserved the right to alter, amend or repeal the Act, but has provided that no amendment or repeal shall operate to impair the obligation of any contract made by TVA in the exercise of any power conferred by the Act.

TVA is administered by the Board, which is composed of three persons appointed by the President and confirmed by the Senate. Appointments are for nine-year staggered terms with one term expiring with each three-year interval. The Board has sole authority for determining the rates which TVA charges for power. The Act requires the Corporation to charge rates for power which, among other things, will produce gross revenues sufficient to provide funds for operation, maintenance, and administration of its power system; payments to states and counties in lieu of taxes; debt service on outstanding Evidences of Indebtedness, including provision and maintenance of reserve funds and other funds established in connection therewith; and annual payments to the U.S. Treasury (the "Treasury") in repayment of and as a return on the government's appropriation investment in TVA power facilities. See "The Basic Resolution; Power Bonds, Discount Notes and Other Indebtedness". Such appropriation investment totaled \$648 million as of September 30, 1994. See "Certain Provisions of the Tennessee Valley Authority Act" — "Payments to the Treasury".

TVA is required annually to file with the President and with the Congress a financial statement and a complete report as to the business of the Corporation. The Comptroller General of the United States is authorized to periodically audit the transactions of TVA.

Under certain conditions, TVA may borrow from the Treasury up to \$150 million for a period of one year or less. Any issuance by TVA of Evidences of Indebtedness with a term of one year or longer is subject to the approval of the Secretary of the Treasury as to the issue date and maximum interest rate. The borrowing authority of TVA is treated as budget authority by the Office of Management and Budget for purposes of the budget of the United States.

Income on Evidences of Indebtedness issued by TVA is subject to various federal tax consequences. Under the Act, Evidences of Indebtedness are exempt both as to principal and interest from all taxation now or hereafter imposed by any state or local taxing authority except estate, inheritance and gift taxes.

## SELECTED FINANCIAL DATA

The following selected financial data of TVA's power program for the fiscal years 1990 through 1994 have been summarized or derived from TVA's audited financial statements. These data should be read in conjunction with the audited financial statements and notes thereto presented elsewhere herein.

### Condensed Statement of Earnings (Dollars in Millions)

|  | Fiscal Year Ended September 30 |          |          |          |              |
|--|--------------------------------|----------|----------|----------|--------------|
|  | 1994                           | 1993     | 1992     | 1991     | 1990         |
| Operating Revenues .....   | \$ 5,401                       | \$ 5,276 | \$ 5,065 | \$ 5,136 | \$ 5,339     |
| Operating Expenses .....   | 3,461                          | 3,269    | 3,198    | 3,047    | 3,221        |
| Operating Income .....   | 1,940                          | 2,007    | 1,867    | 2,089    | 2,118        |
| Other Income and Deductions .....                                    | (59)                           | 23       | (87)     | 24       | (1,138) (1)  |
| Income Before Interest Charges .....                                 | 1,881                          | 2,030    | 1,780    | 2,113    | 980          |
| Interest Expense .....   | 1,853                          | 1,777    | 1,695    | 1,677    | 1,670        |
| Allowance for Funds<br>Used During Construction .....                | (123)                          | (58)     | (35)     | (73)     | (303)        |
| Net Interest Charges .....   | 1,730                          | 1,719    | 1,660    | 1,604    | 1,367        |
| Income (Loss) before cumulative effect of<br>accounting change ..... | 151                            | 311      | 120      | 509      | (387)        |
| Cumulative effect of postretirement benefits<br>change .....         | —                              | —        | —        | (223)    | —            |
| Net Income (Loss) .....  | \$ 151                         | \$ 311   | \$ 120   | \$ 286   | \$ (387) (1) |
| Ratio of Earnings to Fixed Charges(2) .....                          | 1.08                           | 1.18     | 1.07     | 1.17     | 0.77         |

### Condensed Balance Sheet (Dollars in Millions)

|   | September 30    |                 |                 |                 |                 |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
|   | 1994            | 1993            | 1992            | 1991            | 1990            |
| <b>Assets</b>                                 |                 |                 |                 |                 |                 |
| Property, Plant, and Equipment .....          | \$28,071        | \$27,888        | \$24,893        | \$23,871        | \$22,909        |
| Investment Funds(3) .....                     | 150             | —               | 188             | 170             | 297             |
| Current Assets .....                          | 1,025           | 1,434           | 1,724           | 1,816           | 1,231           |
| Deferred Charges and Other Assets .....       | 2,596           | 1,601           | 2,514           | 2,164           | 2,035           |
| TOTAL ASSETS .....                            | <u>\$31,842</u> | <u>\$30,923</u> | <u>\$29,319</u> | <u>\$28,021</u> | <u>\$26,472</u> |
| <b>Capitalization and Liabilities</b>         |                 |                 |                 |                 |                 |
| Current Liabilities .....                     | \$ 4,591        | \$ 4,942        | \$ 3,372        | \$ 2,813        | \$ 1,572        |
| Other Liabilities .....                       | 963             | 1,034           | 2,993           | 3,127           | 2,812           |
| Long-Term Debt(4) .....                       | 22,206          | 20,954          | 19,204          | 18,374          | 18,583          |
| Proprietary Capital .....                     | 4,082           | 3,993           | 3,750           | 3,707           | 3,505           |
| TOTAL CAPITALIZATION AND<br>LIABILITIES ..... | <u>\$31,842</u> | <u>\$30,923</u> | <u>\$29,319</u> | <u>\$28,021</u> | <u>\$26,472</u> |

(1) Reflects a \$900 million nonrecurring writeoff of costs of canceled nuclear units.

(2) Ratio of Earnings to Fixed Charges (unaudited) is calculated by dividing Net Income plus Interest Expense by Interest Expense.

(3) See Note 1 of Notes to Financial Statements.

(4) Excludes defeased debt.



## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### **Cost Reduction Program**

Since 1988 management actions taken by TVA to reduce cost and interest expense have allowed TVA to keep rates at the 1988 level. As recommended by the Chief Financial Officer, an eighth year of stable electric rates for TVA customers was approved by the Board on September 21, 1994, as TVA continues to control operating costs. Other measures are being studied to contribute to the overall efficiency of TVA and to maintain competitive rates in the future.

### **Results of Operations**

#### *Earnings*

TVA's power program primarily consists of the generation, transmission, and sale of electricity. Net income for fiscal 1994 was \$151 million compared with \$311 million for 1993 and \$120 million for 1992. For 1994, TVA had a charge of \$140 million for the exchange of certain uranium assets. Amortization expense was increased by \$126 million due to a reclassification of a portion of the capitalized interest component of nuclear fuel to other deferred charges. TVA also recognized a gain of \$82 million from the sale of securities in September 1993. See Notes 1 and 2 of "Notes to Financial Statements" in the Financial Statements.

#### *Operating Revenues*

Operating revenues were \$5.4 billion for fiscal 1994 compared with \$5.3 billion for 1993 and \$5.1 billion for 1992. These increases occurred although there has not been an increase in power rates.

Total energy sales were 123 billion kilowatthours ("kWh") for fiscal 1994 compared with 119 billion kWh for 1993 and 112 billion for 1992. The impact of mild summer temperatures in 1994 was offset by overall sales growth of 3.4 percent. This growth was due to a contractual change with another federal agency and an overall growth in municipality and cooperative sales. A winter peak demand record of 24,723 megawatts ("MW") was set January 18, 1994, when temperatures were in single digits. Sales growth of 5.5 percent in 1993 resulted from system sales growth and temperature related differences. Sales in 1992 were impacted by mild summer temperatures and some decline in direct industrial sales due to slowdowns in a few segments of the economy.

#### *Operating Expenses*

Operating expenses for fiscal 1994 were \$3.5 billion, compared with \$3.3 billion for 1993 and \$3.2 billion for 1992. Fuel expenses were \$1.5 billion for 1994 compared with \$1.4 billion for 1993 and 1992.

Non-fuel operating expenses were \$2 billion for fiscal 1994 compared with \$1.9 billion for 1993 and \$1.8 billion for 1992. Operating and maintenance expenses were \$1.1 billion for 1994 compared with \$1.2 billion for 1993 and \$1.1 billion for 1992. The decrease in operating and maintenance expenses reflected continuing efforts to reduce costs and maintain competitive rates.

Depreciation and amortization costs increased \$182 million in fiscal 1994 compared with 1993. The increase was attributable to the amortization of deferred charges, additions to completed plant, and an increase in the composite depreciation rate.

### **Financial Condition**

#### *Liquidity and Capital Resources*

TVA's liquidity is maintained by energy sales and access to capital markets through the issuance of debt securities. Capital resources include cash provided by operations and external financing. New borrowings are estimated to be \$1 billion for fiscal 1995 and \$550 million for 1996. Borrowings for subsequent years are

dependent upon the level of capital expenditures and are under review by the Board. For capital requirements met by internally generated funds, see “Statements of Cash Flows” in the Financial Statements.

### **Financing Activities**

Long-term debt and cash from operations are used to finance capital expenditures. Short-term debt and cash from operations are used to manage daily cash needs. In 1994 TVA issued \$6.7 billion in long-term bonds to refinance existing long-term debt and to finance capital expenditures, including the retirement of short-term debt.

### **THE AREA SUPPLIED BY TVA**

TVA supplies power in most of Tennessee, northern Alabama, northeastern Mississippi, and southwestern Kentucky, and in small portions of Georgia, North Carolina and Virginia. The population of the area served by TVA is over 7 million. Subject to certain minor exceptions, TVA may not without specific authorization by Act of Congress enter into contracts which would have the effect of making it or its distributors a source of power supply outside the area for which TVA or its distributors were the primary source of power supply on July 1, 1957.

TVA is primarily a wholesaler of power. Its customers are composed of three major groups: (1) distributors, consisting of municipal and cooperative systems; (2) industries which have large or unusual loads; and (3) federal agencies. In addition, TVA has entered into exchange power arrangements with most of the surrounding electric systems.

### **RATES, CUSTOMERS AND MARKET**

The Act delegates to the Board sole responsibility for establishing the rates which TVA charges and authorizes it to include in power contracts such terms and conditions as in its judgment may be necessary or desirable for carrying out the purposes of the Act. The Act requires the Corporation to charge rates for power which, among other things, will produce gross revenues sufficient to provide funds for operation, maintenance, and administration of its power system; payments to states and counties in lieu of taxes; debt service on outstanding Evidences of Indebtedness, including provision and maintenance of reserve funds and other funds established in connection therewith; and annual payments to the Treasury in repayment of and as a return on the Government's appropriation investment in TVA power facilities. See “The Basic Resolution; Power Bonds, Discount Notes and Other Indebtedness” — “Rate Covenant”. Rates set by the Board are not subject to review or approval by any state or federal regulatory body.

The revenue increase resulting from rate adjustments implemented by the Board in fiscal year 1988 was 1.8 percent. The Board determined that there was no need to adjust rates for additional revenue requirements for each of the fiscal years 1989 through 1995.

A summary of power program operating revenues by customer groups for each of the last five fiscal years ended September 30 is shown in the Comparative Statistical and Financial Data set out on page F-20.

### **Municipal and Cooperative Distributors**

TVA has entered into wholesale power contracts with 160 municipal and cooperative distributors. Such contracts are for terms of 20 years, require distributors to purchase substantially all of their electric power and energy requirements from TVA, and (except for those with two small distributors, providing less than one percent of revenues) require 10 years' notice to terminate the contract and further provide that on each annual anniversary of the contract (beginning with the tenth anniversary) one additional year is automatically added to the term. The remaining two small distributors continue to operate under the original term provisions; however, it is anticipated that the revised provisions will be included in any replacements of their existing contracts. Municipal and cooperative distributors accounted for approximately 86 percent of total power revenues in fiscal 1994.

The contracts contain standard provisions specifying the wholesale rates, resale rates and terms and conditions under which the power is to be distributed. Under the contracts, TVA, on a quarterly basis, may determine and make adjustments in the wholesale rate schedule with corresponding adjustments in resale rate schedules necessary to enable TVA to meet all requirements of the Act and the tests and provisions of its bond resolutions. In addition, the contracts provide for agreement between the parties on general or major changes in both the wholesale and resale rate schedules, and permit TVA, if agreement is not reached, to make changes in such schedules to carry out the objectives of the Act, to meet financial requirements and tests, and to comply with the provisions of its bond resolutions.

The resale rates under which the distributors serve ultimate consumers are stipulated in the power contracts between the distributors and TVA and are revised from time to time to reflect changes in costs, including changes in the wholesale cost of power. They are designed to promote the Act's objective of providing an adequate supply of power at the lowest feasible rates.

### **Industries and Federal Agencies Served Directly**

Contracts with industries served directly by TVA normally are for terms of 10 years but are subject to termination by TVA or the customer upon a minimum notice period that varies according to the customer's contract demand and the period of time service has been provided at that location. Industries directly served accounted for approximately 8 percent of power revenues in fiscal 1994. The power sold directly to industries is delivered under contracts at rates established by TVA. Such rates are the same as those charged by distributors to large industries (those with demand greater than 25,000 kilowatts ("kW")) they serve. Power is sold to federal agencies under the same contract terms and rates as directly served industries. An agreement between TVA and the Department of Energy expired in 1994. The last four years of this agreement required payments to TVA of \$160 million each year.

## **COMPETITION**

The electric utility industry has become increasingly competitive in the past decade. Competition is expected to intensify in the future as a result of federally encouraged deregulation of utilities affecting the wholesale power markets and various provisions of the Energy Policy Act of 1992 ("Energy Act"). Chief among the provisions of this act which will further intensify the competitive environment are amendments (1) to the Federal Power Act that will give the Federal Energy Regulatory Commission ("FERC") greater authority to order electric utilities with transmission lines to wheel (transmit) power over their systems for electric power generating entities; and (2) to the Public Utility Holding Company Act of 1935 that will allow the creation of certain kinds of power generating entities without the entities or their parent corporations being made subject to regulation by the Securities and Exchange Commission under that act.

Nevertheless, a special provision in the Energy Act prevents the new wheeling authority of the FERC from being used to provide municipal and cooperative distributors, that are served by TVA, with an alternative source of power supply. That provision excludes from the new wheeling authority the wheeling of electric energy that will be consumed within the area served by TVA and the distributors (except for Bristol, Virginia).

Although other power suppliers, under certain circumstances, may sell power in the area where TVA power is distributed, there are statutory provisions restricting TVA from expanding the area in which it is a source of power supply. It is important that TVA market power at rates competitive with other suppliers in the region. TVA believes that its eight years of stable rates have assisted distributors of TVA power in competing for new commercial and industrial loads.

In today's competitive environment, some of the municipal and cooperative distributors may consider alternative wholesale supply arrangements upon expiration or termination of their power contracts with TVA. Two distributors, representing one percent of TVA revenues, have provided TVA with notices of power contract termination to permit them to study alternative power supply arrangements.

Recently the Chairman of the Board publicly commented that, in view of the approaching deregulation of the electric power industry and an era of open-market competition, TVA is looking into the expansion of services offered and a broadening of the area it serves. He pointed out that careful consideration would be given before proposing any specific legislation for removing TVA's territorial limitations. In preparation for meeting competition in the changing electric utility industry, the Chairman also has called for an examination by the TVA staff of TVA's relationship with 160 distributors of TVA power. He has asked that a number of items be examined, including whether alternative contractual arrangements relating to services and pricing structures should be developed, in preparing for an entirely new operating environment.

## **POWER AND ENERGY REQUIREMENTS**

TVA prepares annual forecasts of future power and energy requirements as part of its planning and budgeting process. TVA's forecast procedure involves producing a range of load forecasts for the explicit purpose of bounding the range of uncertainty associated with load growth. The load forecasts are produced probabilistically. TVA believes that the high load forecast has a 90 percent probability that actual load will be less than forecast, that the medium load forecast has a 50 percent probability that actual load will be less than forecast, and that the low load forecast has a 10 percent probability that actual load will be less than forecast. TVA's current load forecast through fiscal year 2000 reflects an average annual load growth rate of 4.0 percent, 2.7 percent, and 0.7 percent for the high, medium, and low load forecasts, respectively.

Various provisions in the Energy Act make changes in a wide range of laws affecting energy use and development in the United States. In addition to various other features, some of which are discussed herein, this act establishes a statutory framework for how TVA plans and selects methods for meeting future energy needs.

## **CAPITAL EXPENDITURES**

Cash required by TVA for capital expenditures totaled \$2.0 billion, \$2.1 billion and \$1.9 billion for fiscal years 1994, 1993 and 1992, respectively. TVA's current forecast for capital expenditures for fiscal years 1995-1997 is for expenditures between \$1.1 billion and \$1.8 billion annually. TVA estimates that it will borrow between 40 and 60 percent of the funds needed for these expenditures.

TVA's construction program and related expenditures are continuously reviewed and periodically revised because of changes in estimated system load growth, rates of inflation, nuclear licensing requirements and schedules, the availability and timing of environmental, siting and other regulatory approvals, the scope of modifications required by regulatory agencies, including the Nuclear Regulatory Commission (the "NRC"), the availability and costs of external sources of capital and other factors beyond TVA's control. See "Nuclear Power Program" for assumed nuclear plant startup dates used for planning purposes.

## **POWER SYSTEM**

TVA's power generating facilities at September 30, 1994, included 29 hydroelectric plants, 11 coal-fired plants, 2 nuclear plants, 1 pumped storage hydroelectric plant and 4 gas turbine plants. Power is delivered to TVA customers over a transmission system of approximately 16,800 miles of lines, including 2,400 miles of extra-high-voltage (500,000 volt) transmission lines. The system interconnects with neighboring power systems at numerous points, and TVA has various types of interchange arrangements with these systems. The extent and types of interchange transactions depend upon the characteristics of the systems' loads, the management policies of the systems and other factors. Interchange arrangements are an essential part of TVA's efforts to minimize investment in electrical facilities, increase the reliability of service, effect operating economies and minimize the cost of electric energy.

During the fiscal year ended September 30, 1994, 70 percent of the power generated by the TVA coordinated system was by fossil fired plants, 16 percent by hydro, and 14 percent by nuclear. Coal consumption during this time was 38.4 million tons. Coal is purchased under contracts ranging from a single

delivery to deliveries over several years. Management believes the sources and availability of fuel materials essential to its business should be adequate for the foreseeable future. TVA coal inventory levels vary from plant to plant based upon a simulated inventory model. As of September 30, 1994, TVA had approximately 17 days' coal supply in inventory at full burn.

TVA's power system is one of the largest in the Nation in capacity and in energy production. Its size permits the construction of large facilities which result in lower unit costs. Most of TVA's dams were completed years ago when construction costs were far below present-day levels. Because most of the dams are multipurpose, their cost is shared by navigation, flood control, recreation and local economic development, as well as by power; thus, each purpose is served at a substantially lower cost than if the dams had been built for a single purpose.

A bill has been introduced in the Senate which would eliminate the permanent authorization of TVA's appropriations and would require the development of a plan describing which TVA programs should be continued, discontinued, or transferred. Another bill has been introduced in the House of Representatives which would direct the President to develop a plan for transferring all TVA property to public or private entities. This is the same bill which was introduced in the last Congress and died without any action. Neither bill has been scheduled for hearings or other congressional consideration; and enactment of either of these, or of similar bills, is considered highly unlikely. Although the President's proposed budget for fiscal year 1996 recommended the privatization of four Department of Energy power marketing administrations, it did not recommend any privatization actions for TVA.

### Generating Resources

The following table summarizes the winter net dependable capacity ("NDC") on this coordinated system as of September 30, 1994:

|   | <u>Generating<br/>Units</u> | <u>Winter<br/>NDC<br/>MW(1)</u> |
|---|-----------------------------|---------------------------------|
| TVA Hydro Plants .....                      | 109                         | 3,305                           |
| Other Hydro Plants                          |                             |                                 |
| Corps of Engineers Plants .....             | —                           | 405(2)                          |
| TVA Pumped Storage Plant                    |                             |                                 |
| Raccoon Mountain Pumped Storage Hydro ..... | 4                           | <u>1,532</u>                    |
| Total Hydro .....                           |                             | <u>5,242</u>                    |
| Coal .....                                  | 59                          | <u>15,032</u>                   |
| Nuclear .....                               | 3                           | 3,375                           |
| Combustion Turbine .....                    | 48                          | <u>2,264</u>                    |
| Total NDC .....                             |                             | <u><u>25,913</u></u>            |

- 
- (1) NDC as stated is the net power output which can be obtained for a period adequate to satisfy the daily load patterns under expected conditions of winter operation with equipment in an average state of maintenance. For planning purposes, TVA currently estimates summer dependable total hydro capacity of approximately 5,566 MW; coal-fired capacity of approximately 14,685 MW; nuclear power capacity of approximately 3,375 MW; and combustion turbine capacity of approximately 1,936 MW, for a total summer NDC of approximately 25,562 MW.
  - (2) The Corps of Engineers' plants on the Cumberland River System have a total installed capacity of 853 MW, of which 405 MW of NDC is available to TVA under a marketing agreement with Southeastern Power Administration.

Under arrangements among TVA, the United States Corps of Engineers (the "CORPS") and the Southeastern Power Administration (the "SEPA"), 8 hydro plants of the CORPS comprising the Cumberland River system are operated in coordination with the TVA system. These arrangements further provide for

capacity (405 MW) and energy from the Cumberland River system to be supplied to TVA by SEPA at the points of generation, and the price paid for the power to be based on the operating and maintenance expenses and amortization of the power facilities. A portion of the output of the Cumberland River system is also made available to SEPA's customers outside the TVA region. The agreement with SEPA covering these arrangements for power from the Cumberland River system can be terminated upon three years' notice.

### **Integrated Resource Plan**

In 1993 TVA began development of an Integrated Resource Plan ("IRP") to be utilized in determining its strategy for meeting future customer energy demands. TVA initiated the IRP process in February 1994 and expects to release a draft plan for public comment in July 1995. It is anticipated that the IRP will be completed in December 1995. It will identify a 25-year least-cost energy resource strategy for TVA's power system.

## **NUCLEAR POWER PROGRAM**

### **Overview**

TVA began an ambitious nuclear plant construction program in 1966 to meet projected system load growth. At the height of the construction program, TVA had 17 nuclear units either under construction or in commercial operation at seven plant sites. In August 1982, because of lower-than-expected load growth, TVA canceled construction of four nuclear units. In August 1984, four more units were canceled. Total investment in the eight units at the time of cancellation was \$4.6 billion. All of this amount had been written off by September 30, 1990.

By August 1985, TVA had delayed completion of two units each at Watts Bar and Bellefonte, and TVA had shut down its three units at Browns Ferry and its two units at Sequoyah because of an increasing number of technical and operational problems. In view of these problems and regulatory concerns expressed by the NRC, TVA conducted an extensive review of its nuclear program. TVA determined that the primary cause of the problems was the lack of a sufficient number of experienced nuclear managers who could provide leadership and proper direction for TVA's nuclear activities. In response to this situation, TVA restructured its organization and assigned responsibility for all of its nuclear power activities to a single organization based in large part on a new management team. To provide a comprehensive recovery plan from the problems with its nuclear program and to answer the questions raised by the NRC, TVA developed a Nuclear Performance Plan. The plan was reviewed by the NRC and served as a key reference in TVA's recovery efforts.

### **Nuclear Plant Regulation**

A Construction Permit must be obtained from the NRC before constructing a nuclear plant, and an Operating License must be obtained from the NRC before a nuclear plant may be operated. Each of these steps requires the submission of extensive documentation, notice to the public, and opportunity for public participation in what sometimes become lengthy public hearings. In the past in the nuclear industry, such hearings and challenges through the courts have often resulted in delays in the operation of nuclear plants. Because of such delays and extensive regulatory requirements, estimates of costs to complete or recover nuclear plants have typically been unreliable. Activities related to nuclear plant construction and operation are constantly inspected by the NRC for compliance with detailed NRC regulations, and the NRC vigorously enforces those regulations. The NRC has the authority to enforce its regulations through several mechanisms including issuance of civil monetary penalties and modification, suspension or revocation of licenses.

### **Sequoyah**

Sequoyah is a two-unit plant located approximately 7.5 miles northeast of the city limits of Chattanooga, Tennessee, with pressurized water reactors supplied by Westinghouse Electric Corporation. The units are rated at 1141 and 1136 MW net electrical output for Unit One and Unit Two, respectively. TVA received an Operating License for Unit One in 1980, and the unit began commercial operation in 1981. TVA received an

Operating License for Unit Two in 1981, and the unit began commercial operation in 1982. The Operating Licenses expire 40 years after issuance. The plant was designed, built and is operated by TVA. Because of regulatory concerns, as noted above, TVA voluntarily shut down both units in August 1985.

Prior to restarting the Sequoyah units, TVA extensively addressed organizational, programmatic and specific plant improvements. Unit Two was restarted in May 1988, and Unit One was restarted in November 1988. Because of improvement in the operation of Sequoyah, in May 1989 the NRC notified TVA that both Sequoyah units had improved sufficiently to be removed from the NRC's list of plants that required close monitoring. Since that time, NRC oversight of Sequoyah has been of the normal routine associated with any operating nuclear plant.

The NRC completed a Systematic Assessment of Licensee Performance ("SALP") for Sequoyah for the period October 10, 1993 to January 7, 1995. Under this process, performance is rated in four functional areas: Operations, Maintenance, Engineering and Plant Support. The area of Plant Support includes radiological controls, security, emergency preparedness, fire protection, chemistry and housekeeping controls. The rating system assigns a category rating of 1, 2 or 3 to each functional area. Summarized definitions for each rating are as follows: Category 1 — Performance substantially exceeds regulatory requirements; reduced NRC attention may be appropriate. Category 2 — Performance above that needed to meet regulatory requirements; NRC attention may be maintained at normal levels. Category 3 — Performance does not significantly exceed that needed to meet minimal regulatory requirements; NRC attention should be increased above normal levels. In each of the four functional areas, Sequoyah's performance was above that needed to meet NRC requirements, and consistent ratings of "2" were received.

### **Browns Ferry**

Browns Ferry is a three-unit plant located approximately 10 miles southwest of Athens, Alabama, with boiling water reactors supplied by General Electric Company. Each unit is rated at 1065 MW net electrical output. The plant was designed, built and is operated by TVA. TVA received Operating Licenses for Units One, Two, and Three in 1973, 1974 and 1976, respectively. They began commercial operation in 1974, 1975 and 1977, respectively. The Operating Licenses for these units expire 40 years after issuance. Units One and Three were voluntarily shut down by TVA in March 1985 in response to technical and operational concerns. Unit Two was in a refueling outage at the time. Because of these and subsequently discovered concerns, TVA decided not to restart any Browns Ferry units until it was determined that the plant could be operated safely.

As with the Sequoyah units, TVA extensively addressed organizational, programmatic and specific plant improvements at Browns Ferry, including significant steps to improve management of the plant. Unit Two was restarted in May 1991 and was returned to commercial operation during August 1991. In June 1992, the NRC notified TVA that Unit Two was removed from the NRC's list of plants requiring continued close monitoring. In November 1993, TVA was notified that the NRC SALP for the period May 24, 1992 through September 18, 1993 had been completed for Browns Ferry Unit Two. This SALP was also conducted under the revised SALP process. In two of the four categories now rated by NRC, Operations and Plant Support, Unit Two substantially exceeded NRC requirements and received ratings of "1." In the remaining two categories, Maintenance and Engineering, plant performance was above that needed to meet NRC requirements, and ratings of "2" were received. No ratings of "3" were received. The NRC characterized Unit Two's performance as continuing to improve, and noted that management's attention to plant safety had resulted in excellent oversight and control of plant activities. Browns Ferry Units One and Three were not rated as part of this SALP, and NRC continues to retain those units in the category of plants which require NRC authorization to operate and to receive continued close monitoring.

TVA plans to return Browns Ferry Unit Three to commercial operation in late calendar year 1996. TVA is currently evaluating its alternatives for returning Browns Ferry Unit One to service. From March 1985 through September 1994, the capitalized costs for improvements to Browns Ferry were \$3.2 billion, including capitalized interest. The capitalized costs for returning Browns Ferry Unit Three to service, based on the inflation assumptions set forth in "Capital Expenditures", are anticipated to be in the range of \$500 to \$600 million, including capitalized interest. The estimate and schedule for Browns Ferry Unit One are being

evaluated through the IRP effort which will be complete in calendar year 1995. Preliminary cost estimates (utilized in the IRP) associated with the return to service of Unit One are \$1.2 billion to \$3.2 billion.

### **Watts Bar**

Watts Bar is a two-unit power plant located approximately 50 miles northeast of Chattanooga, Tennessee, with pressurized water reactors supplied by Westinghouse Electric Corporation. Each unit is rated at 1160 MW net electrical output. The plant was designed and has been built to its present level of completion by TVA. Construction Permits for Units One and Two were extended through December 1995 and December 1999, respectively.

Although physical construction of Watts Bar Unit One was substantially complete in 1985, efforts to obtain a license from the NRC to operate it were delayed by the expression of numerous safety concerns by construction and other Watts Bar workers. Overall, TVA determined that while it had organizations, programs, processes and procedures in place to control plant design and construction activities, there were weaknesses identified in some of TVA's programs that were not in all cases adequately addressed. In some cases, TVA had not identified adequately the scope of weaknesses, identified root causes, implemented corrective actions or provided adequate controls to prevent recurrence of problems.

TVA established a group of senior personnel experienced in nuclear design and construction which developed a list of corrective actions, except for those of a routine nature, to be completed before fuel load. However, toward the end of 1987, it was recognized that the issue discovery process at Watts Bar may not have identified all nonconforming items. Therefore, an additional effort was undertaken to perform an integrated, systematic evaluation of Watts Bar and to make recommendations regarding the adequacy of Watts Bar design and construction. Some of the technical issues addressed include welding, design baseline verification, electrical issues, qualification of replacement parts, instrumentation lines, control room design, equipment seismic qualification, fire protection, quality assurance records and the prestart test program. Wherever possible, in these efforts to prepare Watts Bar for operation, TVA has applied the knowledge gained from its successful resolution of similar issues in the recovery and startup of Browns Ferry Unit Two and the Sequoyah units.

While undertaking modifications to address some of these issues in preparation for operation, TVA discovered problems in its work control processes which called into question the effectiveness of the work being performed. As a result, in December 1990, TVA halted construction-related work at the site until corrections to the work control processes were made to ensure the quality of the work. TVA revised and improved its work control practices. In November 1991, TVA obtained NRC concurrence to restart construction-related work on a limited basis, and in June 1992, concurrence to proceed with unrestricted construction work was received.

The NRC completed a SALP for the Watts Bar units for the period June 1993 through June 1994. Performance was evaluated in the functional areas: Construction, Licensing Readiness, Readiness to Support Plant Operations, Safety Assessment/Quality Verification and Preoperational Testing. Watts Bar received a rating of "2" in the five functional areas.

Hot functional testing began April 1, 1994, and as a result on May 15, 1994, the Unit One generator was synchronized to the power system and supplied five MW of power to TVA customers for a short period of time. TVA's plans are to seek NRC approval to bring Unit One into commercial operation in calendar year 1995. Total investment in Unit One at September 30, 1994, was \$6.4 billion, including capitalized interest. Anticipated cost to complete Unit One is currently estimated to be from \$350 million to \$400 million, excluding capitalized interest. Assurance cannot be given that these estimates will not be changed significantly.

On October 1, 1988, TVA suspended construction activities at Unit Two because of a reduction in the forecasted load growth, and the unit is currently in layup pending the completion of TVA's IRP efforts. As of September 30, 1994, construction of Unit Two was estimated to be approximately 60 percent complete. Total



investment in Unit Two at September 30, 1994, was \$1.7 billion, including capitalized interest. See “Nuclear Completion Schedules and General Needs” for discussion of Unit Two completion activities.

### **Bellefonte**

Bellefonte is a two-unit power plant located approximately 59 miles southwest of Chattanooga with pressurized water reactors supplied by Babcock & Wilcox Company (“B&W”) rated at 1212 MW net electrical output each. The plant was designed and has been built to its present level of completion by TVA. Construction Permits were obtained from the NRC for both units in December 1974.

TVA deferred construction activities on Unit Two at Bellefonte because of a reduction in forecasted load growth in October 1985. Construction activity was deferred on Unit One in July 1988. In July 1988, TVA notified the NRC of this action in accordance with the NRC’s October 1987 Policy Statement on Deferred Nuclear Plants. On March 23, 1993, in accordance with guidance in the NRC’s policy statement, TVA notified the NRC of its plans to resume completion activities at Bellefonte. Construction Permits for Unit One and Unit Two have been extended by the NRC to 2001 and 2004, respectively.

As of September 30, 1994, TVA had \$4.5 billion, including capitalized interest, invested in these units. See “Nuclear Completion Schedules and General Needs” for discussion of Bellefonte completion activities.

### **Nuclear Completion Schedules and General Needs**

Recent preliminary cost estimates, utilizing the IRP (see “Power System” — “Integrated Resource Plan”), show that completing the units at Bellefonte and Watts Bar Unit Two could cost between \$3.3 billion and \$8.8 billion, which indicates that their completion may not be economically feasible. As a result, the Board in December 1994 announced a major change in policy declaring that TVA will not, by itself, complete Bellefonte Units One and Two and Watts Bar Unit Two as nuclear units. Consideration is being given to converting these units to another fuel source or entering into arrangements with an electric utility or major contractor to complete them as nuclear units. The economic feasibility of returning Browns Ferry Unit One to service is also being evaluated. The final decision regarding alternate completion arrangements or the conversion of these units will not be made until the TVA Board receives sufficient public input on TVA’s long-term energy strategy.

At December 31, 1994, TVA’s total investment in Bellefonte Units One and Two, Watts Bar Unit Two and Browns Ferry Unit One (including nuclear fuel) was \$6.3 billion. If any of these units are not completed or converted for use with another fuel source, or in the case of Browns Ferry Unit One, returned to service, TVA would determine, at that time, the method and time period for recovery of such costs. TVA has not, at this time, made such a determination.

### **Nuclear Fuel**

TVA owns all nuclear fuel held for its nuclear units (operating, under construction, and deferred). The net book value of such fuel was \$1.0 billion as of September 30, 1994. See Notes 1 and 2 of “Notes to Financial Statements” in the Financial Statements.

TVA’s investment in the fuel being used in the Sequoyah units and Browns Ferry Unit Two is being amortized and accounted for as a fuel expense. The Bellefonte initial cores have been defabricated. The uranium from these cores is being used in the Sequoyah and Browns Ferry units and will continue to be used in these units in the near future and the net book value will be assigned accordingly.

### **Nuclear Waste**

#### *Spent Nuclear Fuel*

The Nuclear Waste Policy Act of 1982 (the “NWPA”) provides that the federal government has the responsibility for the permanent disposal of spent nuclear fuel, but charges each nuclear power system with the

responsibility for the cost of such permanent disposal. The NWPA requires each nuclear power system to enter into a disposal contract with DOE for such material. The contract requires each nuclear power system to pay a fee which is currently one mill per kWh for the net electricity generated and sold by each of its reactors. TVA's spent fuel efforts will ensure that sufficient cost-effective at-reactor storage is available to meet all of TVA's spent fuel storage requirements until DOE is prepared to accept TVA's spent fuel.

TVA presently has the capability to store its spent fuel at Sequoyah and Browns Ferry through the years 1996 and 2007, respectively. TVA plans to extend storage capability through life-of-plant by using higher density racks in its existing storage pools, fuel rod consolidation or dry storage casks. A license amendment request to use high density racks at Sequoyah has been approved by the NRC, and the racks are scheduled for installation during 1995. After completion of the higher density racks, Sequoyah will have capability to store spent fuel until 2003.

#### *Low-Level Radioactive Waste*

Disposal costs for low-level radioactive waste that result from normal operation of nuclear units have increased significantly in recent years and are expected to continue to rise. Pursuant to the Low-Level Radioactive Waste Policy Act, each state is responsible for disposal of low-level waste generated in that state. States may form regional compacts to jointly fulfill their responsibilities. The States of Tennessee and Alabama (where TVA nuclear plants are located) have joined with six other southeastern states to form the Southeast Compact Commission for Low-Level Radioactive Waste Management. This commission regulates the siting of new disposal facilities and the disposal of low-level waste within the southeastern states.

Low-level waste generators (such as TVA) located in the eight southeastern states are required to dispose of such waste at an existing facility in South Carolina. This facility is scheduled to be closed by the State of South Carolina on December 31, 1995. The states participating in the Southeast Compact Commission have selected North Carolina as the host state for the next disposal site, and work is underway in that state to select, license, and construct a new disposal site to take the place of the South Carolina site. Under the current schedule for this work, the new North Carolina disposal facility is planned to be open in 1997. Sufficient storage capacity is available at TVA nuclear plant sites to meet anticipated needs until the scheduled opening of the new disposal facility. However, assurance cannot be given that the scheduled date will not change.

#### **Nuclear Insurance**

The indemnification and limitation of liability plan afforded the United States nuclear industry by the Price-Anderson Act was extended for an additional 15 years in 1988, with certain provisions of the Price-Anderson Act now due to expire on August 1, 2002. The 1988 amendments and the 1993 inflation adjustment to the Price-Anderson Act substantially increased the limit of liability from an accident at an NRC-licensed reactor, and this amount is now approximately \$8.8 billion, composed of primary and secondary layers of financial protection. For further information about this nuclear liability insurance and its deferred premium see Note 10 of "Notes to Financial Statements" in the Financial Statements.

NRC regulations require nuclear power plant licensees to obtain, and TVA has acquired, onsite property damage insurance coverage of \$1.06 billion per nuclear site. Some of the nuclear property insurance may require the payment of retrospective premiums of up to approximately \$32 million in the event that losses by another insured party or TVA exceed available funds. In accordance with NRC regulations, the proceeds of nuclear property insurance are used first to ensure that the reactor is in safe and stable condition and that it can be maintained in a condition that prevents significant risk to the public. Next, the proceeds go for decontamination or, if necessary, decommissioning the reactor. Any excess proceeds insure against casualties to property.

#### **Decommissioning**

Provision for decommissioning costs of nuclear generating units is based on the estimated cost using the dismantling/removal method. The amount stated in 1990 dollars for each of the Browns Ferry units is

\$190 million and for each of the Sequoyah units is \$150 million. The excess of the annual decommissioning provision over earnings from any investments designated for funding decommissioning costs is recovered in rates through charges to depreciation expense. The book value of TVA's decommissioning fund investments was \$152 million at December 31, 1994.

## **ENVIRONMENTAL MATTERS**

TVA's activities are subject to various federal, state, and local environmental statutes and regulations. Major areas of regulation affecting TVA's activities include air pollution control, water pollution control, and management and disposal of solid and hazardous wastes. Because TVA is a federal agency, it is subject only to those state and local environmental requirements for which Congress has clearly waived federal agency immunity. Respecting the major environmental areas (air, water and waste), limited waivers have been enacted by Congress. TVA's activities may also be subject to other narrower environmental requirements or to environmental requirements which affect only federal activities.

TVA has incurred and continues to incur substantial capital expenditures and operating expenses to comply with environmental requirements. Because of the continually changing nature of these requirements, the total amount of these costs is not now determinable. It is anticipated that environmental requirements will become more stringent and that compliance costs will increase, perhaps by substantial amounts.

### **Air Pollution**

Under the Clean Air Act, the United States Environmental Protection Agency (the "EPA") has promulgated national ambient air quality standards for certain air pollutants, including sulfur dioxide, particulate matter and nitrogen oxides. Coal-fired generating units are major sources of these pollutants. TVA also operates other smaller sources. The States of Alabama and Tennessee and the Commonwealth of Kentucky have promulgated implementation plans which regulate sources within their boundaries, including TVA sources, in order to achieve and maintain the national ambient standards. TVA has installed control equipment and employs control strategies to comply with applicable state-established emission limitations. TVA estimates that it spent about \$1.4 billion in capital costs on air pollution control activities prior to the 1990 Clean Air Act Amendments and annual expenditures (operation, maintenance, amortization of control equipment and low sulfur coal premiums) range from \$400 million to \$450 million presently.

The acid rain control provisions of the Clean Air Act establish a number of new requirements for utilities. These requirements will be implemented by EPA and the states in two phases and will result in substantial capital expenditures and increases in operating costs. The total capital cost of the program (Phases I and II) is estimated to be in the range of \$1.5 billion to \$2.3 billion. Additional annual expenditures for compliance with Phase I (1999) are estimated to be in the \$150 million to \$240 million range.

TVA is also working with the Commonwealth of Kentucky to resolve opacity problems which occur at its Paradise Fossil Plant. How these problems will be resolved and the cost and timing of such resolution cannot now be determined, but costs are not expected to be significant on an annual basis.

### **Water Pollution**

Under the Clean Water Act, every point source which discharges pollutants into navigable waters must obtain a National Pollutant Discharge Elimination System ("NPDES") permit specifying the allowable quantity and characteristics of the pollutants discharged. TVA's various point sources have received NPDES permits, including all of its major generating units. Compliance with NPDES requirements has necessitated substantial expenditures and may require additional, substantial expenditures in the future as NPDES permits come up for renewal and applicable requirements are made more stringent. State implementation of EPA's new stormwater regulations are resulting in revised monitoring requirements for TVA's NPDES permits and could eventually result in new discharge limits.

The Clean Water Act allows the permitting authority to establish thermal limits less stringent than the water quality criteria if the discharger can demonstrate that the alternate limit will assure protection and

propagation of a balanced, indigenous aquatic population. TVA has now been issued alternate limits at several of its facilities, and it is meeting these limits.

### **Solid and Hazardous Waste Management**

Under the Resource Conservation and Recovery Act (“RCRA”), the storage, transportation, and disposal of hazardous wastes are regulated by EPA and the states. RCRA also allows EPA and the states to regulate solid wastes and the states have detailed permitting programs for this. TVA has detailed procedures in place that comply with all applicable requirements for the management of hazardous wastes. In addition, TVA has instituted an acceptable supplier list for hazardous waste disposal contractors under which such contractors’ financial status, compliance history, and physical facilities and operations are reviewed before they are allowed to treat or dispose of any of the hazardous wastes generated by TVA facilities. TVA does not itself operate any hazardous waste disposal or treatment facilities but does operate one permitted hazardous waste storage facility in Muscle Shoals, Alabama. TVA has obtained or is in the process of obtaining solid waste disposal permits for the solid waste disposal areas (e.g. fly ash, scrubber sludge, demolition materials and asbestos) it operates at its plant sites. TVA’s costs in this area have not been substantial but applicable requirements are constantly changing and are expected to become more stringent.

Under the Comprehensive Environmental Response, Compensation, and Liability Act (“CERCLA”), the release and cleanup of hazardous substances are regulated. Certain persons who are associated with the release of hazardous substances to the environment can be held responsible for their cleanup, regardless of when the substances were released or when the specific person may have been associated with the substance. This liability under CERCLA is generally viewed as joint and several. TVA, in a manner similar to other industries and power systems, has generated or used hazardous substances over the years. In connection with these activities, TVA has been identified as a potentially responsible party with respect to five non-TVA sites at which TVA hazardous substances were disposed. In addition, TVA is currently investigating two other sites at which TVA is a partial owner and for which TVA may have cleanup responsibilities by virtue of its control of the property. TVA’s potential liabilities for its share of cleanup costs at these sites are uncertain but in total should be less than \$10 million.

### **Miscellaneous**

Polychlorinated biphenyls (“PCBs”) have been widely used as insulating fluids in electric equipment (e.g., transformers and capacitors). Use of such equipment and the cleanup of released PCBs are regulated by EPA under the Toxic Substances Control Act. The TVA power system uses thousands of pieces of equipment which contain some level of PCBs. Most of this equipment can continue to be operated under EPA’s PCB regulations for the remainder of its useful lives, but TVA is phasing out much of this equipment as a matter of policy. The cost of phasing out all of this equipment would exceed \$100 million (equipment replacement and disposal costs) but cannot be accurately determined at this time. TVA has in place detailed procedures to conform its operations to EPA’s PCB regulations, and it has not incurred substantial costs in this area.

Many of TVA’s facilities were constructed at a time when asbestos was the insulation of choice by industry. Asbestos materials now require special handling and disposal when they are removed. Although not required, TVA is removing or encapsulating asbestos as appropriate.

There is a growing public concern about whether there are adverse health effects from exposure to electric and magnetic fields (“EMF”). There are many sources of EMF, including electric transmission lines. Although there is no conclusive evidence that EMF causes adverse health effects, research in this area continues. Substantial costs could be incurred by TVA and other electric systems if EMF levels from transmission lines have to be reduced.

As a federal agency, TVA is required to consider the potential environmental effects of major federal actions affecting the quality of the human environment under the National Environmental Policy Act (the “NEPA”) and implementing regulations and to make these evaluations available to the public. TVA has incorporated the NEPA review process into its decision making process. NEPA-related costs are incurred continuously but not in substantial amounts.

## **INSURANCE**

TVA does not generally carry disaster or public liability insurance except as may be required or appropriate with respect to nuclear facilities and except to the extent it may do so as part of an owner-controlled insurance program it has implemented for some large contracts requiring on-site labor. Liability for service-connected injuries to employees is governed by the Federal Employees' Compensation Act. See "Nuclear Power Program" — "Nuclear Insurance" herein and Note 10 of "Notes to Financial Statements" in the Financial Statements for additional information with respect to insurance.

## MANAGEMENT

TVA is administered by a board of directors composed of three persons appointed by the President and confirmed by the Senate. The Board and selected officers, their ages, their years of employment with TVA and principal occupations for recent years are as follows:

| <u>Name and Title</u>  | <u>Age</u> | <u>Year Commenced<br/>Employment</u> | <u>Year Term<br/>Expires</u> |
|--|------------|--------------------------------------|------------------------------|
| Craven Crowell .....<br>Chairman   | 51         | 1993                                 | 2002                         |
| Johnny H. Hayes .....<br>Director  | 54         | 1993                                 | 1996                         |
| William H. Kennoy .....<br>Director  | 58         | 1991                                 | 1999                         |
| Joseph W. Dickey .....<br>Chief Operating Officer                                  | 50         | 1991                                 |                              |
| Oliver D. Kingsley, Jr. ....<br>President of TVA Nuclear and Chief Nuclear Officer | 52         | 1988                                 |                              |
| David N. Smith .....<br>Chief Financial Officer                                    | 51         | 1995                                 |                              |
| Norman A. Zigrossi .....<br>Chief Administrative Officer                           | 59         | 1986                                 |                              |
| Edward S. Christenbury .....<br>General Counsel and Secretary                      | 53         | 1987                                 |                              |

Mr. Crowell was appointed to the Board in July 1993. Prior to his current position, he served as Chief of Staff for Jim Sasser, Tennessee's then senior U.S. Senator (1989-1993), as Vice President of TVA's Office of Governmental & Public Affairs (1988-1989), and as TVA's Director of Information (1980-1988).

Mr. Hayes was appointed to the Board in July 1993. Prior to his current position, he served as the State of Tennessee's Commissioner of Economic and Community Development (1992-1993) and as Tennessee's Commissioner of Employment Security (1991-1992).

Mr. Kennoy was appointed to the Board in April 1991. Prior to his current position, he served as President of Kennoy Engineers for twenty-five years.

Mr. Dickey was named Chief Operating Officer in February 1994. Prior to his current position, he served as TVA's Senior Vice President, Fossil and Hydro Power (1991-1994), Vice President of Power Resources (Florida Power & Light Co.) (1988-1991), and as Vice President, Nuclear Energy (Florida Power & Light Co.) (1985-1988).

Mr. Kingsley was named President of TVA Nuclear and Chief Nuclear Officer in February 1994. Prior to his current position, he served as TVA's President, Generating Group (1991-1994), as TVA's Senior Vice President of Nuclear Power (1988-1991), and as Vice President, Nuclear Operations for System Energy Resources, Inc. (Mississippi Power and Light Company) (1985-1988).

Mr. Smith was named Chief Financial Officer in January 1995. Prior to his current position, he served as Executive Director of Odyssey Financial (1993-1994), as Vice President of Finance of LTV Corporation (1991-1993), and as Assistant Treasurer and Director of Corporate Finance of LTV Corporation (1986-1991).

Mr. Zigrossi was named Chief Administrative Officer in February 1994. Prior to his current position, he served as TVA's President, Resource Group (1992-1994) and as TVA's Inspector General (1986-1992).

Mr. Christenbury assumed the position of General Counsel of TVA in January 1987. Prior to his current position, he served as an Assistant General Counsel at the NRC (1980-1987).

## **EMPLOYEES**

On December 31, 1994, TVA had about 17,000 (19,000 as of September 30, 1994) employees, of which approximately 5,500 (6,200 as of September 30, 1994) were trades and labor employees. Neither the federal labor laws covering most private sector employers, nor those covering most federal agencies are applicable to TVA; however, the Board has a longstanding policy of recognizing and dealing with recognized representatives of its employees. TVA employees are prohibited by federal law from engaging in strikes against TVA. In 1992, TVA entered into separate long-term agreements with the Tennessee Valley Trades and Labor Council (“Council”), the Salary Policy Employee Panel (“Panel”), and the International Brotherhood of Teamsters (“Teamsters”). One agreement recognizes the Panel for collective bargaining purposes for 20 years. The other recognizes the Council and Teamsters for collective bargaining purposes for 15 years. About 80 percent of TVA’s employees are in these bargaining units, all of which are covered by existing collective bargaining agreements. The collective bargaining agreements with the Council (which is comprised of six unions representing annual trades and labor employees, including those working inside the power plants) and the Teamsters (covering materials handling work) have no specific expiration date; however, each contains provisions for possible expiration of major parts of the agreement as early as 1997, upon six months’ notice. The collective bargaining agreement with the Panel (comprised of five unions representing white collar employees) also has no expiration date; however, the agreement provides for possible expiration of major parts of the agreement in 1999, upon 12 months’ notice. Each of these agreements provide for negotiation of most provisions except monetary matters about every 3 years; wage and salary and benefit negotiations or adjustments generally occur annually. Unresolved disputes over rates of pay for trades and labor employees are resolved by binding decisions of the Secretary of Labor, while pay and monetary benefits disputes for other represented employees are resolved through binding arbitration. TVA’s hourly construction, modification and supplemental maintenance work is now performed by contractors primarily under project labor agreements negotiated by TVA and the Council. Permanent craft operating and regular maintenance work continues to be performed by annual TVA employees represented by the Council for operating and maintenance employees, and by the Teamsters for materials handling work.

Salaries of regular TVA employees are limited by a federal pay cap (Executive Level IV, currently \$115,700). This had led in the past to difficulties in the recruitment and retention of top management talent, and continues to be an issue which TVA must face in its recruitment and retention efforts. The impact of the pay cap has been alleviated somewhat by the increases in TVA’s pay cap since January 1990 from \$80,700 to \$115,700. TVA has also addressed this issue by developing and implementing supplementary compensation arrangements, which have substantially reduced the impact of the pay cap. In TVA’s opinion, the implementation of these arrangements is within TVA’s legal authority. The General Accounting Office (the “GAO”) has expressed the opinion that some of these arrangements are not within TVA’s legal authority. However, GAO has no authority to issue binding legal opinions on this matter or to stop any TVA payments. Congress is aware of TVA’s supplemental compensation arrangements and has not taken any action that would undermine TVA’s position that the arrangements are within its legal authority.

## **CERTAIN PROVISIONS OF THE TENNESSEE VALLEY AUTHORITY ACT**

The following summarizes certain provisions of the Act.

### **Payments in Lieu of Taxes**

TVA is not subject to federal income taxes or to taxation by states or their subdivisions. However, the Act requires payments in lieu of taxes by TVA to states and counties in which it operates, in amounts equal to 5 percent of its gross revenues from the sale of power (exclusive of sales to federal agencies not for resale).

### **Payments to the Treasury**

The Act requires TVA to make certain payments into the Treasury each year from Net Power Proceeds in excess of those required for debt service as a return on and reduction of the Appropriation Investment. Net Power Proceeds are defined as the remainder of TVA’s Gross Power Revenues after deducting the cost of

operating, maintaining and administering its power properties (including multiple-purpose properties in the proportion that multiple-purpose costs are allocated to power) and payments to states and counties in lieu of taxes, but before deducting depreciation accruals or other charges representing the amortization of capital expenditures, plus the net proceeds of the sale or other disposition of any power facility or interest therein.

### **Acquisition of Real Estate**

The Act empowers TVA to acquire real estate in the name of the United States of America by purchase or by exercise of the right of eminent domain, “and thereupon all such real estate shall be entrusted to the Corporation as the agent of the United States to accomplish the purposes of [the] Act”. Since nearly all of TVA’s properties, including powerhouses and transmission line rights-of-way, constitute real estate, title to which is held in the name of the United States and entrusted to TVA as agent of the United States, all references in this Statement to “TVA properties” and the like, and to the amounts invested therein, should be read and construed in the light of this provision of the Act.

### **THE BASIC RESOLUTION; POWER BONDS, DISCOUNT NOTES AND OTHER INDEBTEDNESS**

TVA’s Power Bonds are issued pursuant to Section 15d of the Act and pursuant to the Basic Resolution. At December 31, 1994, TVA had outstanding \$23.2 billion (\$23.3 billion at September 30, 1994) principal amount of Power Bonds and \$1.2 billion (\$3.8 billion at September 30, 1994) of Power Bonds that are being redeemed under in-substance defeasance arrangements, issued pursuant to the Basic Resolution and resolutions supplemental thereto.

Power Bonds may be issued only to provide capital for TVA’s power program (including refunding any Evidences of Indebtedness issued for like purposes) and only as authorized by law at the time of issuance. Power Bonds are payable as to both principal and interest solely from Net Power Proceeds and are not obligations of, or guaranteed by, the United States of America. Net Power Proceeds for 1994, 1993, and 1992 were \$2.6 billion, \$2.5 billion and \$2.5 billion, respectively. Power Bonds of each series must be further authorized by Supplemental Resolution.

TVA intends from time to time to issue New Power Bonds with maturities and on terms determined in light of market conditions at the time of sale. The New Power Bonds may be sold to dealers or underwriters, who may resell the New Power Bonds in public offerings or otherwise. In addition, New Power Bonds may be sold by TVA directly or through other entities.

Except for FISBS described below, the specific aggregate principal amount, maturity, interest rate or method for determining such rate, interest payment dates, if any, purchase price to be paid to TVA, any terms for redemption or other special terms, form and denomination of New Power Bonds, information as to any stock exchange listing, and the names of any dealers, underwriters or agents, together with a description of any amendments or supplements to the Basic Resolution in connection with the sale of New Power Bonds being offered at a particular time will be set forth in an offering circular, and any appropriate supplement thereto, together with the terms of such New Power Bonds.

New Power Bonds include TVA’s FISBS that may be issued from time to time in installments with maturities of from one year to fifty years. TVA intends to offer FISBS for sale on a continuous basis to members of a group of securities dealers selected by TVA, who will resell such FISBS. The aggregate principal amount of all such Installment Bonds will not exceed \$4 billion at any one time outstanding and the maximum effective rate payable on any such Installment Bonds will not exceed 10 percent.

Information relating to FISBS will be set forth in an Installment Bonds offering circular and any appropriate amendment or supplement thereto. At the time of each sale TVA will determine if the FISBS then being sold will be subject to redemption prior to the maturity date and will establish the purchase price, principal amount, interest rate or interest rate formula, maturity date, and certain other terms of such sale.



TVA's Discount Notes are also issued pursuant to Section 15d of the Act and in accord with Section 2.5 of the Basic Resolution. As of December 31, 1994, TVA had outstanding approximately \$3.1 billion (\$2.5 billion at September 30, 1994) in Discount Notes. The net proceeds received by TVA from the sale of Discount Notes are used to assist in financing TVA's power program. The Discount Notes are payable solely from Net Power Proceeds (but may, at the option of TVA, be paid from the proceeds of refunding obligations or other funds legally available for such payment) and are not obligations of, or guaranteed by, the United States of America.

TVA intends to offer Discount Notes for sale on a continuous basis to a group of securities dealers selected by TVA, who will resell such notes. Discount Notes will be issued in such form and upon such terms and conditions as deemed appropriate by TVA. Certain information respecting Discount Notes will be set forth in a Discount Notes offering circular and any appropriate supplement thereto.

TVA from time to time may issue Other Indebtedness, in addition to New Power Bonds and Discount Notes, to assist in financing its Power Program. Other Indebtedness, such as Quarterly Income Debt Securities ("QIDS"), are issued pursuant to Section 15d of the Act and under appropriate authorizing resolutions.

QIDS will be issued from time to time with maturities and on terms determined in light of market conditions at the time of sale. The QIDS may be sold to dealers or underwriters, who may resell the QIDS in public offerings or otherwise. In addition, QIDS may be sold by TVA directly or through other entities. QIDS are payable as to both principal and interest solely from Net Power Proceeds and are not obligations of, or guaranteed by, the United States of America.

The specific aggregate principal amount, maturity, interest rate or method for determining such rate, interest payment dates, if any, purchase price to be paid to TVA, any terms for redemption or other special terms, form and denomination of Other Indebtedness, information as to any stock exchange listing, and the names of any dealers, underwriters or agents, will be set forth in an offering circular, and any appropriate supplement thereto, together with the terms of such Other Indebtedness.

The following summary of certain provisions of the Basic Resolution does not purport to be complete and is qualified in its entirety by reference to the full text of the Basic Resolution.

#### **Application of Net Power Proceeds**

Section 2.3 of the Basic Resolution provides as follows:

Net Power Proceeds shall be applied, and the Corporation hereby specifically pledges them for application, first to payments due as interest on Bonds, on Bond Anticipation Obligations, and on any Evidences of Indebtedness issued pursuant to Section 2.5 which rank on a parity with Bonds as to interest; to payments of the principal due on Bonds for the payment of which other provisions have not been made; and to meeting requirements of sinking funds or other analogous funds under any Supplemental Resolutions. The remaining Net Power Proceeds shall be used only for:

- (a) Required interest payments on any Evidences of Indebtedness issued pursuant to Section 2.5 which do not rank on a parity with Bonds as to interest.
- (b) Required payments of or on account of principal of any Evidences of Indebtedness other than Bonds.
- (c) Minimum payments into the United States Treasury required by the Act in repayment of and as a return on the Appropriation Investment.
- (d) Investment in Power Assets, additional reductions of the Corporation's capital obligations, and other lawful purposes related to the Power Program; provided, however, that payments into the United States Treasury in any fiscal year in reduction of the Appropriation Investment in addition to the minimum amounts required for such purpose by the Act may be made only if there is a net reduction during such year in the dollar amount of outstanding Evidences of Indebtedness issued for capital

purposes, and only to such extent that the percentage of aggregate reduction in the Appropriation Investment during such year does not exceed the percentage of net reduction during the year in the dollar amount of outstanding Evidences of Indebtedness issued for capital purposes.

Section 2.4 of the Basic Resolution provides as follows:

The Corporation, having first adopted a Supplemental Resolution authorizing the issuance of a series of Bonds and pending such issuance, may issue Bond Anticipation Obligations and renewals thereof (including Interim Obligations to the Secretary of the Treasury) to be paid from the proceeds of such series of Bonds when issued or from other funds that may be available for that purpose.

Section 2.5 of the Basic Resolution provides as follows:

To assist in financing its Power Program the Corporation may issue Evidences of Indebtedness other than Bonds and Bond Anticipation Obligations, which may be payable out of Net Power Proceeds subject to the provisions of Section 2.3 hereof, but no such other Evidences of Indebtedness shall rank on a parity with or ahead of the Bonds as to payments on account of the principal thereof or rank ahead of the Bonds as to payments on account of the interest thereon.

See “Amendments to the Basic Resolution to Become Effective in the Future” for a discussion of amendments that will affect the above provisions of Sections 2.3 and 2.5 of the Basic Resolution.

### **Rate Covenant**

Section 3.2 of the Basic Resolution provides as follows:

The Corporation shall fix, maintain and collect rates for power sufficient to meet in each fiscal year the requirements of that portion of the present subsection (f) of section 15d of the Act which states as follows:

The Corporation shall charge rates for power which will produce gross revenues sufficient to provide funds for operation, maintenance, and administration of its power system; payments to States and counties in lieu of taxes; debt service on outstanding bonds, including provision and maintenance of reserve funds and other funds established in connection therewith; payments to the Treasury as a return on the appropriation investment pursuant to subsection (e) hereof; payment to the Treasury of the repayment sums specified in subsection (e) hereof; and such additional margin as the Board may consider desirable for investment in power system assets, retirement of outstanding bonds in advance of maturity, additional reduction of appropriation investment, and other purposes connected with the Corporation’s power business, having due regard for the primary objectives of the Act, including the objective that power shall be sold at rates as low as are feasible.

For purposes of this Resolution, “debt service on outstanding bonds,” as used in the above provision of the Act, shall mean for any fiscal year the sum of all amounts required to be (a) paid during such fiscal year as interest on Evidences of Indebtedness, (b) accumulated in such fiscal year in any sinking or other analogous fund provided for in connection with any Evidences of Indebtedness, and (c) paid in such fiscal year on account of the principal of any Evidences of Indebtedness for the payment of which funds will not be available from sinking or other analogous funds, from the proceeds of refunding issues, or from other sources; provided, however, that for purposes of clause (c) of this definition Bond Anticipation Obligations and renewals thereof shall be deemed to mature in the proportions and at the times provided for paying or setting aside funds for the payment of the principal of the authorized Bonds in anticipation of the issuance of which such Bond Anticipation Obligations were issued.

The rates for power fixed by the Corporation shall also be sufficient so that they would cover all requirements of the above-quoted provision of subsection (f) of section 15d of the Act if, in such requirements, there were substituted for “debt service on outstanding bonds” for any fiscal year the amount which if applied annually for 35 years would retire, with interest at the rates applicable thereto, the originally issued amounts of all series of Bonds and other Evidences of Indebtedness, any part of which was outstanding on October 1 of such year.

## **Covenant for Protection of Bondholders' Investment**

Under the Act and Section 3.3 of the Basic Resolution, TVA must, in each successive 5-year period beginning October 1, 1960, use either for the reduction of its capital obligations (including Evidences of Indebtedness and the Appropriation Investment) or for investment in Power Assets an amount of Net Power Proceeds at least equal to the sum of (1) depreciation accruals and other charges representing the amortization of capital expenditures and (2) the net proceeds from any disposition of power facilities.

## **Depreciation**

The Basic Resolution requires TVA to accrue, in accordance with a recognized method, annual amounts for depreciation of its power properties (except land and other nondepreciable property) which will amortize their original cost less anticipated net salvage value within their expected useful lives. TVA has provided allowances for depreciation of its power properties (except land and other nondepreciable property) on a straight-line basis during their expected useful lives.

## **Issuance of Additional Bonds and Other Evidences of Indebtedness**

The Act presently limits the issuance of Evidences of Indebtedness by TVA to a total of \$30 billion outstanding at any one time to assist in financing TVA's power program (and for refunding). At December 31, 1994, TVA had approximately \$26.5 billion (\$25.9 billion at September 30, 1994) of outstanding Evidences of Indebtedness. This total does not include \$1.2 billion (\$3.8 billion at September 30, 1994) of Power Bonds that are being redeemed under in-substance defeasance arrangements and are not considered by TVA to be included in the amount of debt that is subject to the \$30 billion limit. (Irrevocable trusts, that hold U.S. Treasury obligations that will provide funds sufficient to pay all remaining amounts that will become due, have been established for each series of Power Bonds being defeased. See Note 6 to "Notes to Financial Statements" in the Financial Statements.) TVA has announced an intention to limit, by October 1997, total outstanding debt to a level \$2-3 billion below the \$30 billion ceiling. The Basic Resolution permits the issuance of Power Bonds only to provide capital for TVA's power program, including the refunding of any Evidences of Indebtedness issued for that purpose.

Power Bonds, the terms and conditions of which may not be inconsistent with the Basic Resolution, must also be authorized by Supplemental Resolution.

The issuance of Power Bonds is limited as follows by the Basic Resolution:

Each Supplemental Resolution authorizing the issuance of Power Bonds must contain a finding by the Board that after the Power Bonds authorized thereby have been issued Gross Power Revenues will be adequate to meet the requirements of the Basic Resolution with respect to rates and the application of depreciation accruals. These requirements are described under "The Basic Resolution; Power Bonds, Discount Notes and Other Indebtedness" — "Rate Covenant" and — "Covenant for Protection of Bondholders' Investment".

The amount of Power Bonds outstanding may not be increased unless net power income (after interest expense and depreciation charges but before payments as a return on or in reduction of the appropriation investment) for the latest five fiscal years has aggregated at least \$200 million. Moreover, that minimum requirement is increased by \$15 million for each  $\frac{1}{4}$  percent (or major fraction thereof) by which the average for those five years of the October 1 average interest rate payable by the United States Treasury upon its total marketable public obligations exceeds  $3\frac{1}{4}$  percent. See Section 3.4 of the Basic Resolution.

Pending the issuance of Power Bonds authorized by a Supplemental Resolution, Bond Anticipation Obligations and renewals thereof (including Interim Obligations to the Secretary of the Treasury) may be issued, to be paid from the proceeds of such Power Bonds when issued or from other funds that may be available for that purpose.

Evidences of Indebtedness (such as Discount Notes) other than Power Bonds and Bond Anticipation Obligations may also be issued to assist in financing TVA's power program. They may be payable out of Net Power Proceeds subject to the provisions of Section 2.3 of the Basic Resolution. They may not rank on a parity with or ahead of the Power Bonds as to principal or ahead of them as to interest. See "Amendments to the Basic Resolution to Become Effective in the Future".

### **Mortgaging and Disposal of Power Properties**

TVA may not mortgage any part of its power properties and may not dispose of all or any substantial portion of such properties unless provision is made for a continuance of the interest, principal and sinking fund payments due and to become due on all outstanding Evidences of Indebtedness, or for the retirement of such Evidences of Indebtedness.

### **Modifications of Resolutions and Outstanding Bonds**

The Basic Resolution provides for amendments to it, to any Supplemental Resolution, and to any outstanding Power Bonds. In summary, amendments of the respective rights and obligations of TVA and the bondholders may be made with the written consent of the holders of at least 66⅔ percent in principal amount of the outstanding Power Bonds to which the amendment applies; but changes in the maturity, principal amount, redemption premium, or rate of interest or maturity of any interest installment, with respect to any Power Bond, or in the above percentage for any such consent, cannot be made without the consent of the holder of such Power Bonds.

In addition, TVA may amend the Basic Resolution or any Supplemental Resolution without the consent of the bondholders in order (1) to close the Basic Resolution against the issuance of additional Power Bonds or to restrict such issuance by imposing additional conditions or restrictions; (2) to add other covenants and agreements to be observed by TVA or to eliminate any right, power or privilege conferred upon TVA by the Basic Resolution; (3) to modify any provisions to release TVA from any of its obligations, covenants, agreements, limitations, conditions or restrictions, provided that such modification or release shall not become effective with respect to any Power Bonds issued prior to the adoption of such amendment; (4) to correct any defect, ambiguity or inconsistency in, or to make provisions in regard to matters or questions arising under, the Basic Resolution or any Supplemental Resolution, so long as such amendments are not contrary to, or inconsistent with, the Basic Resolution or such Supplemental Resolution; or (5) to make any other modification or amendment which the Board by resolution determines will not materially and adversely affect the interests of holders of the Power Bonds.

### **Events of Default**

Any of the following shall be deemed an Event of Default under the Basic Resolution: (i) default in the payment of the principal or redemption price of any Power Bond when due and payable at maturity, by call for redemption, or otherwise; (ii) default in the payment of any installment of interest on any Power Bond when due and payable for more than 30 days; or (iii) failure of TVA to duly perform any other covenant, condition or agreement contained in the Power Bonds or in the Basic Resolution or any Supplemental Resolution for 90 days after written notice specifying such failure has been given to TVA by the holders of at least 5 percent in aggregate principal amount of the then outstanding Power Bonds.

Upon any such Event of Default, the holders of the Power Bonds may proceed to protect and enforce their respective rights, subject to the restrictions described below. The holders of at least 5 percent in aggregate principal amount of Power Bonds then outstanding shall, subject to certain restrictions, have the right and power to institute a proceeding (i) to enforce TVA's covenants and agreements, (ii) to enjoin any acts in violation of the rights of holders of Power Bonds, and (iii) to protect and enforce the rights of holders of Power Bonds. Power Bonds do not provide for acceleration upon an Event of Default.

Such holders have no right to bring any such action or proceeding against TVA unless they have given TVA written notice of an Event of Default, and TVA has had a reasonable opportunity to take appropriate corrective action with respect thereto and has failed or refused to do so.

Holders of a majority in aggregate principal amount of the outstanding Power Bonds have the right to direct the time, method and place of conducting any proceeding for any remedy available and may waive any default and its consequences, except a default in the payment of the principal of, premium, if any, or interest on any Power Bonds.

#### **Amendments to the Basic Resolution to Become Effective in the Future**

On March 25, 1992, TVA adopted a resolution amending the Basic Resolution, entitled “Fourth Amendatory Resolution to Basic Tennessee Valley Authority Power Bond Resolution” (the “Fourth Amendatory Resolution”). The amendments to the Basic Resolution made by the Fourth Amendatory Resolution will become effective only at such time as either (a) all Power Bonds issued prior to the date of adoption of the Fourth Amendatory Resolution cease to be outstanding (which will occur not later than November 15, 2029) or (b) the holders of at least 66⅔ percent of the principal amount of all then outstanding Power Bonds issued prior to the adoption of the Fourth Amendatory Resolution consent in writing to such amendments. At such times as the amendments become effective, they shall apply to all Power Bonds. The holders of Power Bonds offered after March 25, 1992, shall be deemed to have given their consent to the effect that, at any time after the conditions set forth in (a) or (b) above have been met, the amendments to the Basic Resolution made by the Fourth Amendatory Resolution will become effective in the manner provided. No further vote or consent of the holders of Power Bonds offered after March 25, 1992, is required to permit such amendments to the Basic Resolution to become effective.

The Fourth Amendatory Resolution, when effective in accordance with its terms and the terms of the Basic Resolution as described above, will (1) delete from the Basic Resolution the limitation on issuance of Power Bonds set forth in Section 3.4 thereof and (2) amend the Basic Resolution to permit issuance of other Evidences of Indebtedness under Section 2.5 thereof that rank on a parity with Power Bonds as to principal and interest.

Section 3.4 of the Basic Resolution presently restricts TVA’s ability to issue Power Bonds unless net power income (after interest expense and depreciation charges but before payments as a return on or in reduction of the Appropriation Investment) for the latest five fiscal years has aggregated at least \$200 million. That amount is increased by \$15 million for each ¼ percent (or major fraction thereof) by which the average for those five years of the October 1 average interest rates payable by the United States Treasury upon its total marketable public obligations exceeds 3¼ percent. Upon the effectiveness of the Fourth Amendatory Resolution (which eliminates Section 3.4) Sections 3.5 through 3.10 will be renumbered as appropriate.

The foregoing is a brief summary of certain provisions of the Fourth Amendatory Resolution. This summary is not to be considered a full statement of the terms of the Fourth Amendatory Resolution and, accordingly, is qualified by reference to the Fourth Amendatory Resolution. Copies in reasonable quantity of the Fourth Amendatory Resolution may be obtained upon written request directed to Tennessee Valley Authority, 400 West Summit Hill Drive, Knoxville, Tennessee 37902, Attention: Vice President and Treasurer, or by calling (615) 632-3366.

#### **Stripping**

Certain series of the Corporation’s New Power Bonds (the “Eligible New Power Bonds”) may be separated (“stripped”) into their Interest and Principal Components (as hereinafter defined) and maintained as such on the book-entry records of the Federal Reserve Banks. The components of each Eligible New Power Bond are: each future interest payment due on or prior to the first date on which the Eligible New Power Bond is subject to redemption at the option of the Corporation (each an “Interest Component”); and the principal payment plus any interest payments after the first date on which the Eligible New Power Bond is subject to redemption at the option of the Corporation (the “Principal Component”). Each Interest Component and the Principal Component will receive an identifying designation and CUSIP number. A request for separation of an Eligible New Power Bond into its Interest and Principal Components must be made to the Federal Reserve Bank of New York (“FRBNY”). Currently the FRBNY does not charge a fee for stripping Eligible New Power Bonds. For an Eligible New Power Bond to be stripped into its Interest and Principal Components as

described above, the principal amount of the Eligible New Power Bond must be in an amount that, based on the stated interest rate of the Eligible New Power Bonds, will produce a semi-annual interest payment of \$1,000 or multiples thereof. The minimum principal amounts required to strip an Eligible New Power Bond at various interest rates, as well as the interest payments corresponding to those minimum principal amounts, may be obtained by calling the Corporation's Vice President and Treasurer at (615) 632-3366 and the minimum principal amount required to strip an Eligible New Power Bond will be disclosed in a related offering circular except for Installment Bonds. Interest and Principal Components will be obligations of TVA payable solely from TVA's Net Power Proceeds.

Once a New Power Bond has been stripped into its Interest and Principal Components, the Interest and Principal Components may be maintained and transferred on the book-entry system of the Federal Reserve Banks in integral multiples of \$1,000. Payments on the Interest and Principal Components will be made on the applicable payment dates on the related New Power Bonds by crediting holders' accounts at the FRBNY. At the request of a holder and on the holder's payment of a fee (currently the FRBNY's fee applicable to on-line book-entry securities transfers), the FRBNY will restore ("reconstitute") the unmatured Interest and Principal Components of a stripped New Power Bond to their fully constituted form. Holders wishing to reconstitute the unmatured Interest and Principal Components of a stripped New Power Bond to their fully constituted form must (i) produce all outstanding Interest and Principal Components for a stripped New Power Bond and (ii) comply with all applicable requirements of the FRBNY governing the stripping and reconstitution of securities.

The offering price of the Interest and Principal Components could be at substantial discounts from their face amounts and, as a result, these components may be subject to greater interest rate volatility than the fully constituted New Power Bonds or other obligations bearing current interest. There also may be a less liquid secondary market for such Interest and Principal Components as compared to the secondary market for the fully constituted New Power Bonds.

The Interest and Principal Components of Eligible New Power Bonds could be subject to restrictions or requirements with respect to the legality of investment therein which do not apply to New Power Bonds held in their fully constituted form. Thus, each person or entity is advised to consult with its own counsel with respect to the legality of investment in Interest and Principal Components.

## INDEPENDENT ACCOUNTANTS

The financial statements of TVA at September 30, 1994, and 1993 and for each of the three fiscal years in the period ended September 30, 1994, appended hereto as part of the Information Statement, have been audited by Coopers & Lybrand L.L.P., independent accountants, as set forth in their report, dated November 15, 1994, which report is also appended hereto.

\* \* \* \* \*

Any statements in this Information Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Information Statement is not to be construed as a contract or agreement with the purchaser of any of the New Power Bonds, Discount Notes or Other Indebtedness.

This Information Statement has been approved by a duly authorized officer of the Tennessee Valley Authority.

Tennessee Valley Authority

By: /s/ JOHN M. HOSKINS

John M. Hoskins  
*Vice President and  
Treasurer (Acting)*

Dated March 30, 1995

**TENNESSEE VALLEY AUTHORITY**  
**FINANCIAL STATEMENTS**  
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**FINANCIAL HIGHLIGHTS — Power Program**  
**As of and For the Years Ended September 30**

|                            | <u>1994</u>           | <u>1993</u> | <u>Percent</u> |
|----------------------------|-----------------------|-------------|----------------|
|                            | (Millions of dollars) |             | <u>Change</u>  |
| Operating Revenues .....   | \$ 5,401              | \$ 5,276    | 2              |
| Operating Expenses .....   | 3,461                 | 3,269       | 6              |
| Operating Income .....     | 1,940                 | 2,007       | (3)            |
| Interest Expense .....     | 1,853                 | 1,777       | 4              |
| Net Income .....           | 151                   | 311         | (51)           |
| Total Assets .....         | \$31,842              | \$ 30,923   | 3              |
| Capitalization             |                       |             |                |
| Equity .....               | \$ 4,082              | \$ 3,993    | 2              |
| Long-Term Debt .....       | 22,206                | 20,954      | 6              |
| Total Capitalization ..... | \$26,288              | \$424,947   | 5              |

**POWER SYSTEM STATISTICS**

|   | <u>1994</u>                  | <u>1993</u> | <u>Percent</u> |
|---|------------------------------|-------------|----------------|
|   | (Millions of kilowatt-hours) |             | <u>Change</u>  |
| System Input  |                              |             |                |
| System Generation   |                              |             |                |
| Hydro, including Pumped Storage .....                         | 20,193                       | 17,987      | 12             |
| Coal .....  | 92,058                       | 97,202      | (5)            |
| Nuclear .....   | 18,359                       | 12,323      | 49             |
| Combustion Turbine .....                                      | 239                          | 317         | (25)           |
| Total Net Generation .....                                    | 130,489                      | 127,829     | 2              |
| Purchased .....   | 75                           | 98          | (24)           |
| Net Interchange and Wheeling .....                            | 487                          | (460)       | 206            |
| Total System Input .....                                      | 131,411                      | 127,467     | 3              |
| System Output   |                              |             |                |
| Sales   |                              |             |                |
| Municipalities and Cooperatives .....                         | 102,375                      | 99,982      | 2              |
| Federal Agencies .....  | 4,407                        | 2,382       | 85             |
| Industries .....  | 15,792                       | 16,196      | (3)            |
| Total Sales .....   | 122,574                      | 118,560     | 3              |
| Losses .....  | 8,837                        | 8,907       | (1)            |
| Total System Output .....                                     | 131,411                      | 127,467     | 3              |
| Dependable Capacity in Service (megawatts) .....              | 25,913                       | 25,622      | 1              |
| Percent of Average Gross Generation to Dependable Capacity in |                              |             |                |
| Service .....   | 62.06                        | 61.32       | 1              |
| System Peak Load (megawatts) .....                            | 24,723                       | 23,878      | 4              |
| Annual Load Factor .....                                      | 60.42                        | 61.11       | (1)            |
| Percent Dependable Capacity by Fuel Source                    |                              |             |                |
| Coal .....  | 58%                          | 59%         |                |
| Hydro .....   | 20%                          | 19%         |                |
| Combustion Turbine .....                                      | 9%                           | 9%          |                |
| Nuclear in Service .....                                      | 13%                          | 13%         |                |

**TENNESSEE VALLEY AUTHORITY**  
**STATEMENTS OF OPERATIONS AND RETAINED EARNINGS —**  
**POWER PROGRAM**  
**For the Years Ended September 30, 1994, 1993, and 1992**

|   | <u>1994</u>    | <u>1993</u><br>(Millions) | <u>1992</u>    |
|---|----------------|---------------------------|----------------|
| OPERATING REVENUES.....                                       | \$5,401        | \$5,276                   | \$5,065        |
| OPERATING EXPENSES  |                |                           |                |
| Fuel and purchased power, net .....                           | 1,493          | 1,401                     | 1,354          |
| Operating and maintenance .....                               | 1,081          | 1,174                     | 1,098          |
| Depreciation and amortization of deferred nuclear costs ..... | 639            | 457                       | 505            |
| Tax-equivalent payments .....                                 | 248            | 237                       | 241            |
| Total operating expenses .....                                | <u>3,461</u>   | <u>3,269</u>              | <u>3,198</u>   |
| Operating income .....  | <u>1,940</u>   | <u>2,007</u>              | <u>1,867</u>   |
| OTHER INCOME AND DEDUCTIONS, NET .....                        | (59)           | 23                        | (87)           |
| Income before interest charges .....                          | <u>1,881</u>   | <u>2,030</u>              | <u>1,780</u>   |
| INTEREST CHARGES  |                |                           |                |
| Interest expense .....  | 1,853          | 1,777                     | 1,695          |
| Allowance for funds used during construction .....            | (123)          | (58)                      | (35)           |
| Net interest charges .....                                    | <u>1,730</u>   | <u>1,719</u>              | <u>1,660</u>   |
| NET INCOME .....  | <u>151</u>     | <u>311</u>                | <u>120</u>     |
| Return on appropriation investment .....                      | 42             | 48                        | 57             |
| Increase in retained earnings reinvested .....                | 109            | 263                       | 63             |
| Retained earnings reinvested at beginning of period .....     | <u>3,325</u>   | <u>3,062</u>              | <u>2,999</u>   |
| Retained earnings reinvested at end of period .....           | <u>\$3,434</u> | <u>\$3,325</u>            | <u>\$3,062</u> |

The accompanying notes are an integral part of these financial statements.

**TENNESSEE VALLEY AUTHORITY**  
**STATEMENTS OF NET EXPENSE AND ACCUMULATED NET EXPENSE —**  
**NONPOWER PROGRAMS**  
**For the Years Ended September 30, 1994, 1993, and 1992**

|  | <u>1994</u>           | <u>1993</u>           | <u>1992</u>           |
|--|-----------------------|-----------------------|-----------------------|
|  | (Millions)            |                       |                       |
| NET EXPENSE  |                       |                       |                       |
| STEWARDSHIP .....                                    | \$ 78                 | \$ 73                 | \$ 67                 |
| WATER AND LAND .....                                 | 8                     | (3)                   | 9                     |
| LAND BETWEEN THE LAKES .....                         | 4                     | 5                     | 4                     |
| RURAL DEVELOPMENT .....                              | 20                    | 23                    | 22                    |
| ENVIRONMENTAL RESEARCH CENTER .....                  | 26                    | 30                    | 36                    |
| COAL GASIFICATION .....                              | <u>—</u>              | <u>—</u>              | <u>113</u>            |
| NET EXPENSE .....                                    | <u>136</u>            | <u>128</u>            | <u>251</u>            |
| Accumulated net expense at beginning of period ..... | <u>2,803</u>          | <u>2,675</u>          | <u>2,424</u>          |
| Accumulated net expense at end of period .....       | <u><u>\$2,939</u></u> | <u><u>\$2,803</u></u> | <u><u>\$2,675</u></u> |

The accompanying notes are an integral part of these financial statements.

# TENNESSEE VALLEY AUTHORITY

## BALANCE SHEETS

At September 30, 1994 and 1993

|   | Power program |          | All programs |          |
|---|---------------|----------|--------------|----------|
|   | 1994          | 1993     | 1994         | 1993     |
|   | (Millions)    |          |              |          |
| ASSETS  |               |          |              |          |
| PROPERTY, PLANT AND EQUIPMENT                           |               |          |              |          |
| Completed plant .....                                   | \$16,700      | \$15,764 | \$17,845     | \$16,815 |
| Less accumulated depreciation and depletion .....       | 5,584         | 5,163    | 5,861        | 5,425    |
| Completed plant, net .....                              | 11,116        | 10,601   | 11,984       | 11,390   |
| Construction in progress .....                          | 9,520         | 8,675    | 9,558        | 8,794    |
| Deferred nuclear generating units .....                 | 6,206         | 6,125    | 6,206        | 6,125    |
| Nuclear fuel .....                                      | 1,014         | 2,269    | 1,014        | 2,269    |
| Capital lease assets .....                              | 215           | 218      | 215          | 218      |
| Total .....   | 28,071        | 27,888   | 28,977       | 28,796   |
| INVESTMENT FUNDS, at accreted cost .....                | 150           | —        | 150          | —        |
| CURRENT ASSETS  |               |          |              |          |
| Cash .....  | 2             | 113      | 152          | 290      |
| Short-term investments .....                            | —             | 123      | —            | 123      |
| Accounts receivable .....                               | 676           | 752      | 720          | 786      |
| Inventories, at average cost .....                      |               |          |              |          |
| Fuel .....  | 104           | 176      | 104          | 176      |
| Other .....   | 243           | 270      | 243          | 270      |
| Total .....   | 1,025         | 1,434    | 1,219        | 1,645    |
| DEFERRED CHARGES AND OTHER ASSETS                       |               |          |              |          |
| Loans and other long-term receivables and other .....   | 373           | 346      | 429          | 405      |
| Unamortized debt issue and reacquisition costs .....    | 1,340         | 1,255    | 1,340        | 1,255    |
| Other deferred charges .....                            | 883           | —        | 883          | —        |
| Total .....   | 2,596         | 1,601    | 2,652        | 1,660    |
| Total assets .....                                      | \$31,842      | \$30,923 | \$32,998     | \$32,101 |
| CAPITALIZATION AND LIABILITIES                          |               |          |              |          |
| CAPITALIZATION  |               |          |              |          |
| Equity  |               |          |              |          |
| Appropriation investment, net .....                     | \$ 648        | \$ 668   | \$ 4,594     | \$ 4,473 |
| Retained earnings reinvested in the power program ..... | 3,434         | 3,325    | 3,434        | 3,325    |
| Accumulated net expense of nonpower programs .....      | —             | —        | (2,939)      | (2,803)  |
| Total .....   | 4,082         | 3,993    | 5,089        | 4,995    |
| Long-term debt .....                                    | 22,206        | 20,954   | 22,206       | 20,954   |
| Total .....   | 26,288        | 24,947   | 27,295       | 25,949   |
| OTHER LIABILITIES                                       |               |          |              |          |
| Capital lease obligations .....                         | 211           | 214      | 211          | 214      |
| Decommissioning of nuclear plant .....                  | 264           | 264      | 264          | 264      |
| Other accrued liabilities .....                         | 488           | 556      | 488          | 556      |
| Total .....   | 963           | 1,034    | 963          | 1,034    |
| CURRENT LIABILITIES                                     |               |          |              |          |
| Short-term debt .....                                   | 2,609         | 3,335    | 2,609        | 3,335    |
| Current maturities of long-term debt .....              | 716           | 297      | 716          | 297      |
| Accounts payable .....                                  | 646           | 656      | 770          | 810      |
| Payrolls and other accrued costs .....                  | 196           | 210      | 221          | 232      |
| Interest accrued .....                                  | 424           | 444      | 424          | 444      |
| Total .....   | 4,591         | 4,942    | 4,740        | 5,118    |
| COMMITMENTS AND CONTINGENCIES (Note 10)                 |               |          |              |          |
| Total capitalization and liabilities .....              | \$31,842      | \$30,923 | \$32,998     | \$32,101 |

The accompanying notes are an integral part of these financial statements.

**TENNESSEE VALLEY AUTHORITY**  
**STATEMENTS OF CASH FLOWS**  
For the Years Ended September 30, 1994, 1993, and 1992

|   | Power program  |                |                | All programs   |                |                |
|---|----------------|----------------|----------------|----------------|----------------|----------------|
|   | 1994           | 1993           | 1992           | 1994           | 1993           | 1992           |
|   | (Millions)     |                |                |                |                |                |
| <b>CASH FLOWS FROM OPERATING</b>              |                |                |                |                |                |                |
| <b>ACTIVITIES</b>                             |                |                |                |                |                |                |
| Net power income .....                        | \$ 151         | \$ 311         | \$ 120         | \$ 151         | \$ 311         | \$ 120         |
| Net expense of nonpower programs .....        | —              | —              | —              | (136)          | (128)          | (251)          |
| Items not requiring (providing) cash          |                |                |                |                |                |                |
| Depreciation and amortization of              |                |                |                |                |                |                |
| deferred nuclear costs .....                  | 639            | 457            | 505            | 651            | 467            | 515            |
| Allowance for funds used during               |                |                |                |                |                |                |
| construction and nuclear fuel .....           | (123)          | (58)           | (35)           | (123)          | (58)           | (35)           |
| Nuclear fuel amortization .....               | 176            | —              | —              | 176            | —              | —              |
| Other, net .....                              | 217            | 120            | 191            | 216            | 120            | 304            |
| Changes in current assets and liabilities     |                |                |                |                |                |                |
| Accounts receivable, net .....                | 76             | (59)           | 4              | 66             | (68)           | 60             |
| Inventories .....                             | 99             | (25)           | 53             | 99             | (25)           | 53             |
| Accounts payable and accrued                  |                |                |                |                |                |                |
| liabilities .....                             | (23)           | (186)          | 249            | (51)           | (185)          | 235            |
| Interest payable .....                        | (21)           | (35)           | (38)           | (21)           | (35)           | (38)           |
| Other .....                                   | (47)           | (22)           | (1)            | (47)           | (23)           | (1)            |
| Net cash provided by operating activities ... | <u>1,144</u>   | <u>503</u>     | <u>1,048</u>   | <u>981</u>     | <u>376</u>     | <u>962</u>     |
| <b>CASH FLOWS FROM INVESTING</b>              |                |                |                |                |                |                |
| <b>ACTIVITIES</b>                             |                |                |                |                |                |                |
| Construction expenditures .....               | (2,015)        | (2,311)        | (1,689)        | (2,023)        | (2,319)        | (1,700)        |
| Allowance for funds used during               |                |                |                |                |                |                |
| construction .....                            | 123            | 58             | 35             | 123            | 58             | 35             |
| Nuclear fuel .....                            | 70             | (2,275)        | —              | 70             | (2,275)        | —              |
| Investments .....                             | (26)           | 539            | 10             | (26)           | 539            | 10             |
| Other, net .....                              | (80)           | 139            | (288)          | (77)           | 130            | (287)          |
| Net cash used in investing activities .....   | <u>(1,928)</u> | <u>(3,850)</u> | <u>(1,932)</u> | <u>(1,933)</u> | <u>(3,867)</u> | <u>(1,942)</u> |
| <b>CASH FLOWS FROM FINANCING</b>              |                |                |                |                |                |                |
| <b>ACTIVITIES</b>                             |                |                |                |                |                |                |
| Long-term debt                                |                |                |                |                |                |                |
| Issues .....                                  | 6,381          | 4,669          | 6,450          | 6,381          | 4,669          | 6,450          |
| Redemptions .....                             | (3,175)        | (638)          | (3,980)        | (3,175)        | (638)          | (3,980)        |
| Debt defeased .....                           | (1,493)        | (1,929)        | (1,596)        | (1,493)        | (1,929)        | (1,596)        |
| Short-term borrowings, net .....              | (726)          | 1,628          | 443            | (726)          | 1,628          | 443            |
| Borrowing expenses, net .....                 | (252)          | (359)          | (385)          | (252)          | (359)          | (385)          |
| Congressional appropriations and              |                |                |                |                |                |                |
| transfers .....                               | —              | —              | —              | 141            | 136            | 139            |
| Payments to U.S. Treasury .....               | (62)           | (68)           | (77)           | (62)           | (68)           | (77)           |
| Net cash provided by financing activities ... | <u>673</u>     | <u>3,303</u>   | <u>855</u>     | <u>814</u>     | <u>3,439</u>   | <u>994</u>     |
| Net change in cash and cash equivalents ...   | (111)          | (44)           | (29)           | (138)          | (52)           | 14             |
| Cash and cash equivalents at beginning of     |                |                |                |                |                |                |
| year .....                                    | <u>113</u>     | <u>157</u>     | <u>186</u>     | <u>290</u>     | <u>342</u>     | <u>328</u>     |
| Cash and cash equivalents at end of year ...  | <u>\$ 2</u>    | <u>\$ 113</u>  | <u>\$ 157</u>  | <u>\$ 152</u>  | <u>\$ 290</u>  | <u>\$ 342</u>  |

The accompanying notes are an integral part of these financial statements.

**TENNESSEE VALLEY AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**

**1. Summary of significant accounting policies**

*General*

The Tennessee Valley Authority (TVA) is a wholly owned corporate agency and instrumentality of the United States. It was established by the TVA Act with the objective of developing the resources of the Tennessee Valley region in order to strengthen the regional and national economy and the national defense by providing: (1) an ample supply of power within the region; (2) navigable channels and flood control for the Tennessee River System; and (3) agricultural and industrial development and improved forestry in the region.

TVA's programs are divided into two types of activities — the power program and the nonpower programs. Substantially all TVA revenues and assets are attributable to the power program. Most of the funding for TVA's nonpower programs is provided by congressional appropriations. Certain nonpower activities are also funded by various revenues and user fees. The power program is required to be self-supporting from power revenues.

Power rates are established by the TVA Board of Directors as authorized by the TVA Act. The TVA Act requires TVA to charge rates for power which, among other things, will produce gross revenues sufficient to provide funds for operation, maintenance, and administration of its power system; payments to states in lieu of taxes; debt service on outstanding indebtedness; and annual payments to the U.S. Treasury in repayment of and as a return on the government's appropriation investment in TVA power facilities.

Financial accounts for the power and nonpower programs are kept separately. Power accounts are generally maintained in accordance with the uniform system of accounts prescribed by the Federal Energy Regulatory Commission. Nonpower accounts are maintained in accordance with applicable generally accepted accounting principles. Prior year data presented in the financial statements reflect certain reclassifications to conform with current year presentations.

*Property, plant, equipment and depreciation*

Additions to plant are recorded at cost, which include direct and indirect costs such as general engineering, a portion of corporate overhead, and an allowance for funds used during construction. The cost of betterments is capitalized and the cost of current repairs and minor replacements is charged to operating expense. The TVA Act requires TVA's Board of Directors to allocate between the power and nonpower programs, subject to the approval of the President of the United States, the cost of completed multipurpose projects. The original cost of property retired, together with removal costs less salvage value, is charged to accumulated depreciation. Straight-line depreciation is provided for substantially on a composite basis. Rates of depreciation are derived from engineering studies of useful life. The average of the composite rates that were applied individually to each major class of plant for fiscal years 1994, 1993, and 1992 was 3.14 percent, 3.06 percent, and 2.97 percent, respectively.

Provision for decommissioning costs of nuclear generating units is based on the estimated cost using the dismantling/removal method. The amount stated in 1990 dollars for each of the Browns Ferry units is \$190 million, and \$150 million for each of the Sequoyah units. The excess of the annual decommissioning provision over earnings from any investments designated for funding decommissioning costs is recovered in rates through charges to depreciation expense.

The practice of capitalizing an allowance for funds used during construction is followed in the power program. The allowance is applicable to construction in progress excluding deferred nuclear generating units and Watts Bar 1, which is substantially complete. The amount of interest capitalized is limited to the amount of depreciation and certain other noncash charges less the amount of the repayment of the appropriation investment to the U.S. Treasury.

**TENNESSEE VALLEY AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS — (Continued)**

*Nuclear fuel*

Prior to 1994, the cost of nuclear fuel, including disposal, was amortized on the basis of generation and charged to fuel expense. Effective for 1994, TVA elected to reclassify a \$1,009 million capitalized interest component of nuclear fuel to other deferred charges. This asset is being amortized on a straight-line basis and included in rates over an eight-year period. The effect of this change was to increase amortization expense by \$126 million for 1994. The remaining balance of nuclear fuel will continue to be amortized based on generation. Related financing costs are capitalized as a component of the nuclear fuel acquired.

*Investment funds*

Prior to September 1993, certain power funds were invested in zero coupon bonds in order to provide funding for decommissioning nuclear power plants. Investments were carried at cost, adjusted for amortization of premiums and accretion of discounts at the yield rate over the life of each instrument. In September 1993, TVA determined that the portfolio of investments designated for funding decommissioning could be sold and such proceeds reinvested in instruments that would yield greater proceeds over the remaining term to decommissioning dates. Accordingly, these investments were sold for \$373 million and TVA realized a gain of \$163 million. The gain was deferred and the unamortized balance is included in other liabilities until fully amortized into income over a twenty-four month period beginning in October 1993. Proceeds from the sale have been used to reduce short-term debt until such time as appropriate investment portfolios can be established. At September 30, 1994, a \$150 million investment portfolio had been established.

*Short-term investments*

Funds are invested in commercial paper, repurchase agreements, and medium-term notes with maturities of 364 days or less to manage working capital levels. Investments are carried at cost, which approximates market value.

*Deferred nuclear recovery costs*

Prior to 1993 TVA classified nuclear recovery costs as a deferred charge and amortized such costs over a ten-year period beginning with the restart of each idled unit. During the first quarter of 1993, TVA determined that the operation of nuclear units returned to service indicated that the recovery actions taken have effectively corrected previous deficiencies such that the units are presently expected to remain in service throughout the remainder of the estimated service lives. Accordingly, TVA reclassified the \$1,153 million unamortized balance of deferred nuclear recovery costs to completed plant (\$888 million) and construction in progress (\$265 million) and began depreciating such costs associated with units returned to service over the respective remaining service lives of the nuclear plants. The effect of the change for the year ended September 30, 1993, was to decrease depreciation and amortization expenses by \$86 million.

*Debt issuance costs*

Issue and reacquisition expenses, call premiums and other related costs, and discounts on power borrowings are deferred and amortized and accreted, respectively, on a straight-line basis over the term of the related outstanding securities.

*Tax-equivalent payments*

The TVA Act requires TVA to make payments to states and local governments in which the power operations of the corporation are carried out. The basic amount is five percent of gross revenues from the sale of power to other than Federal agencies during the preceding year, with the provision for minimum payments under certain circumstances.

**TENNESSEE VALLEY AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS — (Continued)**

*Statements of cash flows*

Cash equivalents include the cash available in commercial bank accounts and U.S. Treasury accounts. During fiscal years 1994, 1993, and 1992, interest paid (net of amount capitalized) was \$1,628 million, \$1,642 million, and \$1,625 million, respectively. Capital lease additions, including capitalized interest, were zero in 1994 and 1993 and \$156 million in 1992.

**2. Nuclear power program**

The nuclear power program at September 30, 1994, consists of nine generating units at four locations with investments as follows and in the status indicated:

|                     | <u>Units</u> | <u>Capacity</u><br>(Megawatts) | <u>Completed</u><br><u>Plant, Net</u> | <u>Construction</u><br><u>in Progress</u> | <u>Deferred</u> | <u>Fuel</u><br><u>Investment</u> |
|---------------------|--------------|--------------------------------|---------------------------------------|---|-----------------|----------------------------------|
|                     |              |                                |                                       | (Millions)                                |                 |                                  |
| Sequoyah .....      | 2            | 2,442                          | \$1,956                               | \$ 147                                    | \$ —            | \$ 162                           |
| Browns Ferry .....  | 3            | 3,456                          | 2,343                                 | 1,196                                     | —               | 221                              |
| Watts Bar .....     | 2            | 2,540                          | —                                     | 6,444                                     | 1,657           | 90                               |
| Bellefonte .....    | 2            | 2,664                          | —                                     | —   | 4,549           | —                                |
| Raw Materials ..... |              |                                | —                                     | —   | —               | 541                              |
| Total .....         |              | <u>11,102</u>                  | <u>\$4,299</u>                        | <u>\$7,787</u>                            | <u>\$6,206</u>  | <u>\$1,014</u>                   |

Sequoyah 2 was returned to service October 1993 following an extended outage for steam piping inspection and repair. Sequoyah 2 began a refueling outage in July 1994 and is expected to return to service during November 1994. Sequoyah 1 returned to service in April 1994 following a refueling outage and is currently operating at full power.

Browns Ferry 2 began a refueling outage in October 1994 and is expected to return to service during November 1994. Browns Ferry 1 and 3 were taken off-line in March 1985 for plant modifications and regulatory improvements. TVA plans to return Browns Ferry 3 to service in calendar year 1996. The return to service date for Browns Ferry 1 is currently under review in the Integrated Resource Planning effort as discussed below.

Construction of Watts Bar 1 is substantially complete. Hot functional testing began in April 1994 and, as a result, in May 1994 the Unit 1 generator was synchronized to the power system and supplied five megawatts of power to TVA customers for six minutes. TVA plans to bring Unit 1 into commercial operation in calendar year 1995.

In 1988, TVA suspended construction activities on Watts Bar 2 because of a reduction in the forecasted load growth, and the unit is currently in layup. Bellefonte 1 and 2 were deferred in 1988 and 1985, respectively. Budgeted 1995 expenditures for the three units total \$22 million and are limited to layup, maintenance, and ensuring options remain viable. For financial reporting purposes, the cost of the three units is presented as deferred nuclear generating units. Interest capitalization for Watts Bar 2 and Bellefonte 1 and 2 was suspended in 1988.

In 1993, TVA began an integrated resource planning process, from which information will be utilized to determine TVA's strategy for meeting future customer energy demands. As part of its long-term energy strategy, TVA is reevaluating the need for finishing Bellefonte 1 and 2 and Watts Bar 2. Recent preliminary cost estimates show that completing these units could cost between \$3.3 billion and \$8.8 billion, which indicates their completion may not be economically feasible. Serious consideration is being given to converting Bellefonte to another fuel source or entering into arrangements with an electric utility or major contractor to finish it as a nuclear plant. The economic feasibility of returning Browns Ferry 1 to service is also being evaluated.



**TENNESSEE VALLEY AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS — (Continued)**

The final decision regarding these four nuclear units will not be made until the TVA Board receives sufficient public input on TVA's long-term energy strategy. TVA expects to complete this process by December 1995. If abandonment of any of these units should occur, TVA would recover these costs (including fuel) through rates charged to future customers.

*Nuclear fuel*

During fiscal 1994, TVA entered into a contract whereby TVA exchanged certain uranium assets with a book value of \$73 million and a current market value of \$8 million for \$8 million of enrichment services. The exchange resulted in a \$65 million loss, which is reflected in other deductions in the statement of operations for the year ended September 30, 1994. Also during 1994, TVA exchanged certain uranium assets with a book value of \$84 million and a current market value of \$9 million in lieu of cash to prepay a termination fee associated with a fuel fabrication contract. The exchange resulted in a \$75 million loss, which is also reflected in other deductions in the statement of operations for the year ended September 30, 1994. As of September 30, 1994, the natural uranium component of the total nuclear fuel asset exceeds current market value by an estimated \$400 million. However, TVA believes that the total nuclear fuel asset book value of \$1,014 million, and the resultant average nuclear fuel costs, are comparable to current market values.

In 1992, TVA began converting fuel originally fabricated for use at the Bellefonte plant to a form which is being used at the Browns Ferry and Sequoyah plants. In conjunction with this conversion, TVA determined the costs of original fabrication and subsequent defabrication provide no future benefit. Accordingly, the \$91 million aggregate cost was recognized as a charge in the 1992 statement of operations. TVA also determined that certain failed fuel at Browns Ferry 2 had no recoverable value, and the \$18 million cost was charged to the 1992 statement of operations.

**3. Completed plant**

Completed plant stated at gross cost consists of the following at September 30, 1994 and 1993:

|                                     | <b>1994</b>          |                     | <b>1993</b>          |                     |
|-------------------------------------|----------------------|---------------------|----------------------|---------------------|
|                                     | <b>Power Program</b> | <b>All Programs</b> | <b>Power Program</b> | <b>All Programs</b> |
|                                     | <b>(Millions)</b>    |                     |                      |                     |
| Steam production plants . . . . .   | \$ 5,712             | \$ 5,712            | \$ 5,182             | \$ 5,182            |
| Nuclear production plants . . . . . | 5,664                | 5,664               | 5,351                | 5,351               |
| Transmission plants . . . . .       | 2,457                | 2,457               | 2,341                | 2,341               |
| Multipurpose dams . . . . .         | 680                  | 1,593               | 640                  | 1,541               |
| Single-purpose dams . . . . .       | 472                  | 472                 | 465                  | 465                 |
| Other . . . . .                     | 1,715                | 1,947               | 1,785                | 1,935               |
| Total . . . . .                     | <u>\$16,700</u>      | <u>\$17,845</u>     | <u>\$15,764</u>      | <u>\$16,815</u>     |

**4. Leases**

During 1993, TVA repurchased nuclear fuel that was previously under capital lease. TVA presently leases property, plant, and equipment under lease agreements with terms ranging from one to thirty years. Most of the agreements include purchase options and/or renewal options that cover substantially all the economic lives of the properties.

**TENNESSEE VALLEY AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS — (Continued)**

The following is a summary of obligations under capital and noncancelable operating lease agreements in effect at September 30, 1994 and 1993:

| <u>Fiscal Period</u>                                 | <u>General Plant<br/>Capital Leases</u> | <u>Noncancelable<br/>Operating Leases</u> |
|--|---|---|
|  | (Millions)                              |   |
| 1995 .....   | \$ 36                                   | \$ 5                                      |
| 1996 .....   | 36                                      | 4   |
| 1997 .....   | 36                                      | 2   |
| 1998 .....   | 36                                      | 2   |
| 1999 .....   | 36                                      | 2   |
| Thereafter .....                                     | <u>409</u>                              | <u>9</u>                                  |
| Total future minimum lease payments .....            | 589                                     | <u>\$24</u>                               |
| Less interest element included .....                 | 374                                     |   |
| Present value of future minimum lease payments ..... | <u>\$215</u>                            |   |

Amortization of capital leases, including nuclear fuel, for the years ended September 30, 1994, 1993, and 1992 was \$1 million, \$58 million, and \$193 million, respectively. Operating expenses for the same respective periods included finance charges for capital leases in the amounts of \$33 million, \$45 million, and \$67 million.

Annual rents under one capital lease range from \$3 million to \$52 million under the lease terms now in effect. Operating expenses include annual provisions for the levelization of these rentals over the twenty-five year term of the lease, which expires in 2011. The accrued liability for future lease payments is \$171 million at September 30, 1994.

**5. Appropriation investment**

Changes in the appropriation investment during the fiscal years ended September 30, 1994, 1993, and 1992 were:

|   | <u>1994</u>    | <u>1993</u>    | <u>1992</u>    |
|---|----------------|----------------|----------------|
|   | (Millions)     |                |                |
| Power Program   |                |                |                |
| Congressional Appropriations .....                      | \$1,419        | \$1,419        | \$1,419        |
| Transfers of Property from Other Federal Agencies ..... | 24             | 24             | 24             |
| Repayments to General Fund of the U.S. Treasury .....   | <u>(795)</u>   | <u>(775)</u>   | <u>(755)</u>   |
| Net Appropriation Investment .....                      | <u>\$ 648</u>  | <u>\$ 668</u>  | <u>\$ 688</u>  |
| All Programs  |                |                |                |
| Congressional Appropriations .....                      | \$5,366        | \$5,225        | \$5,090        |
| Transfers of Property from Other Federal Agencies ..... | 65             | 65             | 63             |
| Repayments to General Fund of the U.S. Treasury .....   | <u>(837)</u>   | <u>(817)</u>   | <u>(797)</u>   |
| Net Appropriation Investment .....                      | <u>\$4,594</u> | <u>\$4,473</u> | <u>\$4,356</u> |

The TVA Act requires the payment to the U.S. Treasury from net power proceeds of a return on the net appropriation investment in power facilities plus repayment of such investment with annual payments of \$20 million until a total of \$1 billion has been repaid. The amount of return paid in 1994 was \$42 million and is based on the appropriation investment as of the beginning of the year and the computed average interest rate payable by the U.S. Treasury on its total marketable public obligations as of the same date. The payments required by the TVA Act may be deferred under certain circumstances for not more than two years. Repayments toward the \$1 billion total \$610 million at September 30, 1994. Return on investment payments total \$2,181 million as of September 30, 1994. Congressional appropriations for nonpower programs for fiscal year 1995 are \$142 million.

**TENNESSEE VALLEY AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS — (Continued)**

**6. Borrowing Authority**

The TVA Act authorizes TVA to issue bonds, notes, and other evidences of indebtedness up to a total of \$30 billion outstanding at any one time. TVA must meet certain cash flow and earnings tests that are contained in the TVA Act and the Basic TVA Power Bond Resolution. Debt service on these obligations, which is payable solely from TVA's net power proceeds, has precedence over the payment to the U.S. Treasury described in Note 5. Issues outstanding at September 30, 1994 and 1993 (excluding defeased debt of \$3.8 billion and \$3.25 billion, respectively, which is not considered by TVA to be debt that is subject to the \$30 billion bond limit) consist of the following:

|   | <u>1994</u>     | <u>1993</u>     |
|---|-----------------|-----------------|
| <b>LONG-TERM DEBT</b>   |                 |                 |
|   | (Millions)      |                 |
| Held by the public  |                 |                 |
| Maturing in fiscal year 1995 — 3.85% to 4.25% .....             | \$ —            | \$ 566          |
| Maturing in fiscal year 1996 — 3.81% to 5.94% .....             | 1,306           | 915             |
| Maturing in fiscal year 1997 — 4.60% to 8.25% .....             | 3,137           | 2,500           |
| Maturing in fiscal year 1998 — 5.07% to 6.98% .....             | 653             | 253             |
| Maturing fiscal year 1999 through 2044 — 6.125% to 8.625% ..... | <u>14,050</u>   | <u>10,950</u>   |
|   | 19,146          | 15,184          |
| Federal Financing Bank  |                 |                 |
| Maturing 2003 through 2017 — 7.285% to 11.695% .....            | <u>3,400</u>    | <u>6,075</u>    |
| Total long-term debt .....                                      | <u>22,546</u>   | <u>21,259</u>   |
| Less unamortized discount .....                                 | <u>340</u>      | <u>305</u>      |
| Net long-term debt .....  | <u>\$22,206</u> | <u>\$20,954</u> |
| <b>SHORT-TERM DEBT</b>  |                 |                 |
| Held by public  |                 |                 |
| Discount notes (net of discount) .....                          | \$ 2,459        | \$ 3,185        |
| Current portion of long-term debt — 3.41% to 4.25% .....        | 716             | 297             |
| U.S. Treasury .....   | <u>150</u>      | <u>150</u>      |
| Total short-term debt .....                                     | <u>\$ 3,325</u> | <u>\$ 3,632</u> |
| Total debt .....  | <u>\$25,531</u> | <u>\$24,586</u> |

Between October 1989 and September 1994, TVA sold \$21.1 billion in Power Bonds to the public, using the proceeds to advance refund \$19.4 billion in previously issued long-term debt. Bond issues of \$17.3 billion held by the public are redeemable in whole or in part at TVA's option on call dates ranging from the present to April 2012 at call prices ranging from 100% to 106.7% of the principal amount. TVA incurred premiums totaling \$1.4 billion to effect these advance refundings, which are being deferred and recognized as an expense ratably through the maturity dates of the new debt issues. Advanced refundings totaling \$11.2 billion were effected through insubstance defeasance transactions, wherein TVA transferred sufficient funds to establish irrevocable trusts to hold securities that are scheduled to earn interest and mature in amounts sufficient to meet debt service requirements.

The interest rate on short-term debt owed to the U. S. Treasury as of September 30, 1994, was 4.50 percent and the weighted average yield on short-term debt outstanding in the public market as of September 30, 1994, was 4.82 percent.

During fiscal years 1994, 1993, and 1992, the maximum outstanding balance of short-term borrowings held by the public was (in millions) \$4,062, \$3,302 and \$1,826, respectively, and the average amounts (and

**TENNESSEE VALLEY AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS — (Continued)**

weighted average interest rates) of such borrowings were approximately (in millions), \$3,163 (3.75 percent), \$2,117 (3.19 percent), and \$1,458 (5.1 percent), respectively.

**7. Fair value of financial instruments**

The methods and assumptions used to estimate the fair values of each class of financial instruments are as follows:

*Cash and short-term investments*

The carrying amount approximates fair value because of the short-term maturity of those investments.

*Decommissioning investment fund*

The carrying amount approximates fair value because of the short-term maturity of the investments.

*Loans and long-term receivables*

Fair values for these homogeneous categories of loans and receivables are estimated by determining the present value of future cash flows using the current rates at which similar loans are presently made to borrowers with similar credit ratings and for the same remaining maturities.

*Short-term debt*

For short-term debt instruments such as discount notes, the carrying amount approximates fair value because of the short-term maturity of those instruments.

*Bonds*

Fair value of long-term debt traded in the public market is determined by multiplying the par value of the bonds by the quoted market price (asked price) nearest the balance sheet date. The fair value of other long-term debt and long-term debt held by the Federal Financing Bank is estimated by determining the present value of future cash flows using rates of financial instruments with quoted market prices of similar characteristics of the same remaining maturities.

The estimated values of TVA's financial instruments are as follows:

|   | <b>1994</b>                |                        | <b>1993</b>                |                        |
|---|----------------------------|------------------------|----------------------------|------------------------|
|   | <b>Carrying<br/>Amount</b> | <b>Fair<br/>Amount</b> | <b>Carrying<br/>Amount</b> | <b>Fair<br/>Amount</b> |
|   | (Millions)                 |                        |                            |                        |
| Cash and short-term investments . . . . . | \$ 152                     | \$ 152                 | \$ 413                     | \$ 413                 |
| Decommissioning investment fund . . . . . | 150                        | 150                    | —                          | —                      |
| Loans and long-term receivables . . . . . | 355                        | 345                    | 379                        | 372                    |
| Short-term debt . . . . .                 | 2,609                      | 2,609                  | 3,335                      | 3,335                  |
| Long-term debt . . . . .                  | 23,262                     | 22,590                 | 21,556                     | 23,884                 |

**TENNESSEE VALLEY AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS — (Continued)**

**8. Retirement plans**

*Pension plan*

TVA has a contributory, defined benefit plan covering most full-time employees. Plan assets are primarily stocks and bonds. TVA contributes to the plan such amounts as are necessary on an actuarial basis to provide assets sufficient to meet the obligations for benefits. The pension amount is based on the member's years of creditable service, average base pay for the highest three consecutive years, and the pension rate for the member's age and years of service, less a Social Security offset.

The components of pension expense for fiscal years 1994, 1993, and 1992 were:

|   | <u>1994</u>  | <u>1993</u><br>(Millions) | <u>1992</u>  |
|---|--------------|---------------------------|--------------|
| Service cost .....                                  | \$ 76        | \$ 77                     | \$ 72        |
| Interest cost on projected benefit obligation ..... | 275          | 256                       | 237          |
| Actual return on assets .....                       | (32)         | (512)                     | (355)        |
| Net amortization and deferral .....                 | <u>(307)</u> | <u>209</u>                | <u>71</u>    |
| Net pension costs .....                             | <u>\$ 12</u> | <u>\$ 30</u>              | <u>\$ 25</u> |

The plan's funded status was:

|  |              |              |               |
|--|--------------|--------------|---------------|
| Actuarial present value of benefit obligations:  |              |              |               |
| Vested benefit obligation .....  | \$(2,839)    | \$(2,844)    | \$(2,492)     |
| Nonvested benefits .....   | <u>(111)</u> | <u>(106)</u> | <u>(61)</u>   |
| Accumulated benefit obligation .....   | (2,950)      | (2,950)      | (2,553)       |
| Effects of projected future compensation .....   | <u>(389)</u> | <u>(409)</u> | <u>(397)</u>  |
| Projected benefit obligation .....   | (3,339)      | (3,359)      | (2,950)       |
| Plan assets at fair value .....  | <u>3,674</u> | <u>3,718</u> | <u>3,286</u>  |
| Excess of plan assets over projected benefit obligation .....                                | 335          | 359          | 336           |
| Unrecognized net (gain) .....  | (280)        | (343)        | (341)         |
| Unrecognized net obligation being amortized over 15 years<br>beginning October 1, 1987 ..... | <u>3</u>     | <u>3</u>     | <u>3</u>      |
| Prepaid pension cost (accrued liability) .....   | <u>\$ 58</u> | <u>\$ 19</u> | <u>\$ (2)</u> |

The discount rate used to determine the actuarial present value of the projected benefit obligation was 8.5 percent in fiscal years 1992 and 1994 and 8.0 percent in fiscal year 1993. The assumed annual rates of increase in future compensation levels for 1994 range from 4.3 to 9.3 percent, 1993 ranged from 3.5 to 9.3 percent, 1992 ranged from 4.8 to 9.8 percent. The expected long-term rate of return on plan assets was 11 percent for 1994, 1993 and 1992.

*Other postretirement benefits*

TVA sponsors an unfunded defined benefit postretirement plan which provides for contributions toward the cost of retirees' medical coverage. The plan covers employees whose age plus years of service at retirement equals 60 or more. TVA's contributions are a flat dollar amount based upon the participants' age and years of service and certain payments toward the plan costs.

**TENNESSEE VALLEY AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS — (Continued)**

The following sets forth the plan's funded status at September 30:

|  | <u>1994</u>  | <u>1993</u>  | <u>1992</u>  |
|--|--------------|--------------|--------------|
|  | (Millions)   |              |              |
| Accumulated Postretirement Benefit Obligation (APBO):  |              |              |              |
| Retirees .....   | \$166        | \$144        | \$124        |
| Fully eligible active plan participants .....  | 1            | 1            | 28           |
| Other active plan participants .....   | <u>114</u>   | <u>139</u>   | <u>97</u>    |
|  | 281          | 284          | 249          |
| Unrecognized net gain (loss) .....   | <u>6</u>     | <u>(5)</u>   | <u>20</u>    |
| Accrued postretirement benefit cost .....  | <u>\$287</u> | <u>\$279</u> | <u>\$269</u> |
| Net Periodic Postretirement Benefit Cost for these fiscal years included the following components: |              |              |              |
| Service cost .....   | \$ 10        | \$ 9         | \$ 7         |
| Interest cost .....  | 22           | 22           | 20           |
| Amortization of gain .....   | <u>(5)</u>   | <u>—</u>     | <u>(7)</u>   |
| Net periodic postretirement benefit cost .....   | <u>\$ 27</u> | <u>\$ 31</u> | <u>\$ 20</u> |

The annual assumed cost trend for covered benefits is 13.0 percent in fiscal year 1994, decreasing by one-half percent per year reaching 6 percent in 2009 and thereafter. For fiscal years 1993 and 1992 an annual trend rate of 13.5 percent and 14.0 percent respectively was assumed. The effect in the change of assumptions on a cost basis was not significant. Increasing the assumed health care cost trend rates by one percentage point in each year will increase the APBO as of September 30, 1994, by \$15 million and the aggregated service and interest cost components of net periodic postretirement benefit cost for 1994 by \$2 million. The weighted average discount rate used in determining the APBO was 8.5 percent for fiscal years 1992 and 1994 and 8.0 percent for fiscal year 1993. Gains and losses resulting from experience different from that assumed or from changes in assumptions are amortized using a straight-line method over four years.

*Other postemployment benefits*

TVA adopted Statement of Financial Accounting Standards No. 112 "Employers Accounting for Postemployment Benefits" (SFAS No. 112) on October 1, 1994 (fiscal 1995). SFAS No. 112 applies to postemployment benefits including workers compensation provided to former or inactive employees, their beneficiaries, and covered dependents after employment, but before retirement. Adoption of SFAS No. 112 changed TVA's method of accounting from recognizing costs as benefits are paid to accruing the expected costs of providing these benefits, and resulted in recognition of a transition obligation of approximately \$280 million. The accounting for and impact on TVA's financial position and results of operations will depend on the future ratemaking treatment, which will be determined by December 1994.

*Early-out termination package*

During the fourth quarter of 1994, TVA offered a voluntary early-out package to all TVA employees. Employee elections were received on October 3, 1994 subject to approval by TVA. The cost associated with the termination package is estimated to be approximately \$90 to \$110 million, which will be recognized as a charge in the first quarter of fiscal 1995.

**9. Major customers**

Another Federal agency, in accordance with contract provisions, exercised its right prior to fiscal year 1987 to reduce the amount of electric power to be purchased. An agreement between TVA and the customer

**TENNESSEE VALLEY AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS — (Continued)**

was reached in December 1987 whereby the customer's payment obligations are being satisfied through a series of payments to TVA totaling over \$1.8 billion. Scheduled payments included in revenues are \$160 million each year from 1991 through 1994.

One municipal customer accounts for approximately 9 percent of total power sales and four other municipal customers account for an additional 20 percent of total power sales. All five of these municipal customers have contracts without stated expiration dates, and in no event would the remaining contract term be less than ten years.

**10. Construction expenditures and commitments and contingencies**

Construction expenditures, including capitalized interest, are estimated to be \$1.9 billion and \$1.4 billion for fiscal years 1995 and 1996, respectively. Estimates for capital expenditures beyond 1996 will be dependent upon the outcome of TVA's Integrated Resource Planning effort. These estimates are revised periodically to reflect changes in economic conditions and other factors considered in their determination. Substantial commitments have been incurred for these projects. Approximately \$2.3 billion in long-term commitments, ranging in terms of up to 5 years, have been entered into for the purchase of coal.

*Nuclear insurance*

The Price-Anderson Act sets forth an indemnification and limitation of liability plan for the U.S. nuclear industry. All NRC licensees, including TVA, maintain nuclear liability insurance in the amount of \$200 million for each plant with an operating license. The second level of financial protection required is the industry's retrospective assessment plan, using deferred premium charges. The maximum amount of the deferred premium for each nuclear incident is \$79.275 million per reactor, but not more than \$10 million per reactor may be charged in any one year for each incident. TVA could be required to pay a maximum of \$396 million per nuclear incident on the basis of its five licensed units but it would have to pay no more than \$50 million per incident in any one year. Some of the amounts include a 5% surcharge if additional funds are needed to satisfy public liability claims and legal costs and are subject to adjustment for inflation.

In accordance with NRC regulations, TVA carries, at each licensed nuclear plant, property and decontamination insurance of \$1.06 billion for the cost of stabilizing or shutting down a reactor after an accident. Some of this insurance may require the payment of retrospective premiums of up to a maximum of approximately \$32.1 million.

*Acid rain legislation*

The Clean Air Act Amendments of 1990 will result in substantial expenditures for the reduction of sulfur dioxide, nitrogen oxide, and possible toxic emissions at several of TVA's coal fired generating plants. TVA's present compliance strategy to reduce sulfur dioxide includes adding scrubbers to two coal fired units and switching to low-sulfur coal at four units by January 1, 1995. TVA plans to achieve nitrogen oxide emission reductions required before January 1, 1995 by installing low-nitrogen oxide burners at thirteen units. Annual operating and fuel expenses (excluding capital recovery) could increase \$30 to \$70 million over current fossil operating expenses for the years 1995 through 1999. Phase 2 requirements become effective in the year 2000 and the cost of compliance cannot reasonably be determined at this time due to the uncertainties surrounding final EPA regulations, resultant compliance strategy, potential for development of new emission control technologies, and future amendments to the legislation. Requirements for toxic emissions have not been determined by the EPA.

**TENNESSEE VALLEY AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS — (Continued)**

*Litigation*

TVA is a party to various civil lawsuits and claims that have arisen in the ordinary course of its business. It is the opinion of TVA counsel that although the outcome of pending litigation cannot be predicted with any certainty, the ultimate outcome should not have a material adverse effect on TVA's financial position or results of operations.

**11. Certain nonpower projects**

A 1992 review of the North Alabama coal gasification project status revealed no likely use for the project. The \$113 million cost, exclusive of \$2 million land cost, was retired and charged to the nonpower statement of net expense during 1992.

The construction required to complete the Columbia Dam and Reservoir, a multipurpose project financed by congressional appropriations, has been suspended due to budget restrictions and environmental concerns. In August, 1994, TVA and the Duck River Development Agency (DRDA) reached agreement on the future of the Columbia Dam portion of the Duck River Project. The agreement contemplates pursuing a protective river corridor concept in lieu of completing Columbia Dam. Under this concept the corridor would be developed and managed to protect existing endangered species and provide new recreational opportunities. The dam structure will be stabilized, and TVA will consider alternatives for final disposition. TVA will complete a new environmental impact statement by calendar year 1996. Final decisions related to the project will be made at that time. In 1994, the total cost of the project, \$82 million, was transferred from construction in progress to other completed plant.



## REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of Tennessee Valley Authority

We have audited the accompanying balance sheets (power program and all programs) of Tennessee Valley Authority as of September 30, 1994 and 1993 and the related statements of operations and retained earnings (power program), net expense and accumulated net expense (nonpower programs) and cash flows (power program and all programs) for each of the three years in the period ended September 30, 1994. These financial statements are the responsibility of Tennessee Valley Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the financial statements, TVA is reevaluating the need for completing certain nuclear units as part of its long-term energy strategy.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the power program and all programs of Tennessee Valley Authority as of September 30, 1994 and 1993, and the results of operations of the power program and nonpower programs and cash flows of the power program and all programs for each of the three years in the period ended September 30, 1994 in conformity with generally accepted accounting principles.

Coopers & Lybrand L.L.P.  
Knoxville, Tennessee  
November 15, 1994

## **REPORT OF MANAGEMENT**

Management is responsible for the preparation, integrity and objectivity of the financial statements of Tennessee Valley Authority as well as all other information contained in the annual report. The financial statements have been prepared in conformity with generally accepted accounting principles applied on a consistent basis and, in some cases, reflect amounts based on the best estimates and judgments of management, giving due consideration to materiality. Financial information contained in the annual report is consistent with that in the financial statements.

Tennessee Valley Authority maintains an adequate system of internal controls to provide reasonable assurance that transactions are executed in accordance with management's authorization, that financial statements are prepared in accordance with generally accepted accounting principles and that the assets of the corporation are properly safeguarded. The system of internal controls is documented, evaluated and tested on a continuing basis. No internal control system can provide absolute assurance that errors and irregularities will not occur due to the inherent limitations of the effectiveness of internal controls; however, management strives to maintain a balance, recognizing that the cost of such a system should not exceed the benefits derived. No material internal control weaknesses have been reported to management.

Coopers & Lybrand was engaged to audit the financial statements of Tennessee Valley Authority and issue reports thereon. Their audits were conducted in accordance with generally accepted auditing standards. Such standards require a review of internal controls, examination of selected transactions and other procedures sufficient to provide reasonable assurance that the financial statements neither are misleading nor contain material errors. The Report of Independent Accountants does not limit the responsibility of management for information contained in the financial statements and elsewhere in the annual report.

William F. Malec  
Executive Vice President and Chief Financial Officer

**TENNESSEE VALLEY AUTHORITY**  
**COMPARATIVE STATISTICAL AND FINANCIAL DATA**  
**For the Years Ended September 30**

|  | <u>1994</u>    | <u>1993</u>    | <u>1992</u>    | <u>1991</u>    | <u>1990</u>    |
|--|----------------|----------------|----------------|----------------|----------------|
| Sales (millions of kilowatt-hours) (a)                           |                |                |                |                |                |
| Municipalities and cooperatives . . . . .                        | 102,375        | 99,982         | 93,622         | 92,848         | 91,636         |
| Federal agencies . . . . .                                       | 4,407 (b)      | 2,382          | 2,204          | 2,173          | 2,335          |
| Industries . . . . .   | 15,792         | 16,196         | 16,576         | 17,437         | 17,121         |
| Electric utilities . . . . .                                     | —              | —              | —              | 49             | 265            |
|  | <u>122,574</u> | <u>118,560</u> | <u>112,402</u> | <u>112,507</u> | <u>111,357</u> |
| Operating Revenues (millions of dollars)                         |                |                |                |                |                |
| Electric   |                |                |                |                |                |
| Municipalities and cooperatives . . . . .                        | \$4,582        | \$4,479        | \$4,266        | \$4,272        | \$4,292        |
| Federal agencies . . . . .                                       | 296            | 254            | 255            | 257            | 413            |
| Industries . . . . .   | 452            | 472            | 472            | 531            | 548            |
| Electric utilities . . . . .                                     | —              | —              | 1              | 8              | 17             |
| Other . . . . .  | 71             | 71             | 71             | 68             | 69             |
|  | <u>\$5,401</u> | <u>\$5,276</u> | <u>\$5,065</u> | <u>\$5,136</u> | <u>\$5,339</u> |
| Dependable Generating Capacity<br>(megawatts) (c)                |                |                |                |                |                |
| Hydro (d) . . . . .  | 5,242 (e)      | 4,885          | 4,885          | 4,885          | 4,885          |
| Coal . . . . .   | 15,032         | 15,088         | 15,088         | 15,249         | 15,249         |
| Nuclear units in service . . . . .                               | 3,375          | 3,365          | 3,361          | 3,361          | 2,296          |
| Combustion turbine . . . . .                                     | 2,264          | 2,284          | 2,284          | 2,284          | 2,284          |
|  | <u>25,913</u>  | <u>25,622</u>  | <u>25,618</u>  | <u>25,779</u>  | <u>24,714</u>  |
| System Peak Load (megawatts) . . . . .                           | <u>24,723</u>  | <u>23,878</u>  | <u>21,980</u>  | <u>22,081</u>  | <u>24,627</u>  |
| Percent Gross Generation   |                |                |                |                |                |
| Coal . . . . .   | 70%            | 76%            | 69%            | 68%            | 68%            |
| Hydro . . . . .  | 16%            | 15%            | 14%            | 16%            | 19%            |
| Nuclear . . . . .  | 14%            | 9%             | 17%            | 16%            | 13%            |
| Fuel Cost Per Kilowatt-hour (mills)                              |                |                |                |                |                |
| Coal . . . . .   | 13.4           | 12.7           | 13.3           | 13.5           | 13.7           |
| Nuclear . . . . .  | 11.0           | 10.3           | 11.0           | 10.2           | 10.0           |
| Aggregate fuel cost per kwh net<br>thermal generation . . . . .  | <u>13.1</u>    | <u>12.5</u>    | <u>12.9</u>    | <u>12.9</u>    | <u>13.2</u>    |
| Revenue Per Kilowatt-hour (mills) (f) . . .                      | <u>42.2</u>    | <u>42.6</u>    | <u>43.0</u>    | <u>43.6</u>    | <u>44.5</u>    |
| Fuel Data  |                |                |                |                |                |
| Net thermal generation (millions of<br>kilowatt-hours) . . . . . | 110,643        | 109,968        | 105,577        | 98,153         | 93,595         |
| Billion Btu . . . . .  | 1,120,868      | 1,105,395      | 1,069,725      | 998,934        | 946,113        |
| Fuel expense (millions of dollars) . . . . .                     | 1,450          | 1,375          | 1,360          | 1,263          | 1,233          |
| Cost per million Btu (cents) . . . . .                           | 129.40         | 124.42         | 127.16         | 126.48         | 130.36         |
| Net heat rate . . . . .  | 10,131         | 10,052         | 10,132         | 10,177         | 10,109         |

(a) TVA converted to an end-use wholesale rate structure in May 1992. KWh sales have been adjusted to reflect this change.

(b) Increase due to contractual change with another federal agency.

(c) Winter net dependable capacity.

(d) Includes 405 megawatts of dependable capacity from the Corps of Engineers projects on the Cumberland River system.

(e) Reflects renewal of exchange agreement with TAPOCO.

(f) Excludes Department of Energy settlement payment.



*To be the recognized  
world leader in  
providing energy and  
related services,  
independently and in  
alliances with others, for  
society's global needs.*

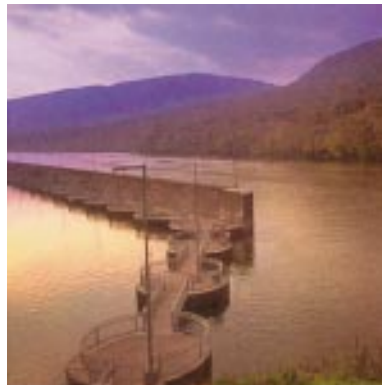


▲  
*TVA's 16,800-mile system of  
transmission lines through seven  
states serves as a vital part of the  
United States energy infrastructure.*



▲  
*TVA's power system is one of  
the largest in the United States  
in both generating capacity  
and energy production.*

*TVA is environmentally  
sensitive in the management of  
the thousands of acres it is  
responsible for along the  
Tennessee River system.*



▲  
*TVA's electric generation  
facilities are state of the art,  
including computer  
controlled production.*

*TVA manages over 600  
miles of the Tennessee River  
system for flood control,  
navigation, power  
production, and  
recreation.*



No dealer, salesperson or any other person has been authorized to give any information or to make any representations other than those contained in this Offering Circular or the current Information Statement contained herein and, if given or made, such information or representations must not be relied upon as having been authorized by TVA or the Underwriters. Neither the delivery of this Offering Circular or the current Information Statement nor any sale of Bonds described herein shall under any circumstances create an implication that the information provided herein is correct at any time subsequent to its date. This Offering Circular does not constitute an offer to sell or a solicitation of an offer to buy the Bonds described herein in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction.

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**\$500,000,000**

## Tennessee Valley Authority

**6.235% Power Bonds 1995  
Series B, Due July 15, 2045**

## OFFERING CIRCULAR

**Merrill Lynch & Co.  
J.P. Morgan Securities Inc.  
Morgan Stanley & Co.  
Incorporated**

**July 18, 1995**